

### **City of Manchester NH – Disclaimer**

The following information relates to bond issues of the City of Manchester, New Hampshire (the "City") that have been sold and distributed in public offerings described in the related official statements. Each viewer of the following information acknowledges that (i) the City is not now by this document offering any bonds or other securities, nor soliciting an offer to buy any securities, (ii) this information is not to be construed as any description of the City or its programs in connection with any offerings of bonds or securities of the City - such offerings are only made pursuant to the appropriate official statements of the City - nor shall anyone assume from the availability of the following information that the affairs of the City (or its programs) have not changed since the date of this information, (iii) no representation is made as the propriety or legality of any secondary market trading of the bonds or other securities of the City by anyone in any jurisdiction, and (iv) the information speaks as of its date, and the City does not obligate itself in any manner to periodically or otherwise update this information or maintain the availability of this information.

**RATINGS: Fitch Ratings: AA+**  
**Moody's: Aa2**  
**Standard & Poor's: AA+**  
**(See "Ratings" herein)**

*In the opinion of Bond Counsel, under existing law, the interest on the Bonds will not be included in gross income for Federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed on corporations and taxpayers other than corporations; however, such interest will be taken into account in determining adjusted current earnings for the purposes of computing the federal alternative minimum tax imposed upon certain corporations. The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. For federal tax purposes, interest includes original issue discount. (See "Tax Exemption" herein).*



**\$11,730,000**  
**CITY OF MANCHESTER, NEW HAMPSHIRE**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2004**

**Dated: Date of Delivery**

**Due: June 1, as shown below**

The Bonds will mature on June 1 in each year as set forth below, and interest is payable on June 1 and December 1 of each year commencing December 1, 2004. The Bonds are not subject to redemption prior to maturity.

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2005	\$ 190,000	2.00%	1.436%	2014	\$1,010,000	5.25%	3.66%
2010	520,000	4.00	2.98	2015	1,015,000	5.25	3.77
2010	605,000	3.25	2.98	2016	1,020,000	5.25	3.87
2011	1,115,000	3.125	3.21	2017	1,020,000	5.25	3.95
2012	415,000	5.00	3.38	2018	2,040,000	5.25	4.04
2012	680,000	3.35	3.38	2019	1,015,000	4.00	4.14
2013	1,085,000	5.00	3.55				

The Bonds will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Payment of the principal of, premium, if any, and interest on the Bonds will be made by the City to DTC, which will in turn remit such payments to its Participants for subsequent disbursement to the Beneficial Owners of the Bonds as described herein. See "Book-Entry-Only System" under "THE BONDS," herein.

The Bonds will be general obligations of the City of Manchester, New Hampshire (the "City") and contain a pledge of the full faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal and interest, the City has the power and statutory authority to levy ad valorem taxes on all taxable property in the City, without limitation as to rate or amount.

The Bonds are offered when, as and if issued, subject to the final approving opinion of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to herein. Certain legal matters will be passed upon for the Underwriter by its counsel, Palmer & Dodge LLP, Boston, Massachusetts. Public Financial Management, Inc., Boston, Massachusetts, has served as financial advisor to the City in connection with the issuance of the Bonds. It is anticipated that the Bonds will be available for delivery through the facilities of The Depository Trust Company, New York, New York, or its custodial agent, on or about September 28, 2004.

**A.G. Edwards**

August 25, 2004

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the City, the Financial Advisor or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the City, the Financial Advisor or the Underwriter. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City, and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor. The information and expressions of opinion herein are subject to change without notice, except as described herein under "CONTINUING DISCLOSURE," and neither the delivery of this Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the City or in any other information contained herein, since the date hereof.

This Official Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the City and other economic and financial matters, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the City, the Financial Advisor or the Underwriter that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

FOR NEW HAMPSHIRE RESIDENTS: IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

# **City of Manchester, New Hampshire**

## **MAYOR**

**Robert A. Baines**

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## **BOARD OF ALDERMEN**

Ward 1 ..... Mark E. Roy	Ward 7 ..... William P. Shea
Ward 2 ..... Theodore L. Gatsas	Ward 8 ..... Betsi De Vries
Ward 3 ..... Frank C. Guinta	Ward 9 ..... Michael Garrity
Ward 4 ..... Mary A. Sysyn	Ward 10 ..... George Smith
Ward 5 ..... Ed Osborne	Ward 11 ..... Henry R. Thibault
Ward 6 ..... Paul Porter	Ward 12 ..... Armand Forest
At Large.... Michael Lopez	At Large..... Daniel P. O'Neil

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## **CITY OFFICERS**

Kevin A. Clougherty ..... City Finance Officer

Randy M. Sherman.....Deputy Finance Officer

Joanne L. Shaffer.....Second Deputy Finance Officer

Leo R. Bernier .....City Clerk

Thomas R. Clark.....City Solicitor

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## **BOND COUNSEL**

Ropes & Gray LLP  
Boston, Massachusetts

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## **FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Boston, Massachusetts

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## **OFFICIAL STATEMENT**

**\$11,730,000**

### **CITY OF MANCHESTER, NEW HAMPSHIRE GENERAL OBLIGATION REFUNDING BONDS, SERIES 2004**

This Official Statement (which includes the cover page and Appendices) is provided for the purpose of setting forth information concerning the City of Manchester, New Hampshire (the “City”) in connection with the sale of \$11,730,000 General Obligation Refunding Bonds, Series 2004 (the “Bonds”) to be issued by the City as described herein. The proceeds of the Bonds will be used to refund certain outstanding general obligation indebtedness of the City and to pay various costs of issuance for the Bonds. Certain credit factors concerning the Bonds are described throughout this Official Statement, which must be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after the date hereof.

All quotations from and summaries and explanations of acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Bonds and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive forms of the Bonds and such proceedings.

### **CITY OF MANCHESTER, NEW HAMPSHIRE**

The City of Manchester (the “City”) is located on the Merrimack River in south central New Hampshire, approximately 58 miles north of Boston, Massachusetts. It is bordered by the towns of Hooksett, Bedford, Londonderry, Goffstown, Auburn, Litchfield and Merrimack. The City has a population of 108,150, according to the 2003 report of the New Hampshire Office of State Planning, and is expected to continue to grow as noted herein. The City occupies a land area of 33.9 square miles. The Manchester Metropolitan Area, with a ten mile radius, has a population of over 310,000, and the Manchester Trade Area, with a 20 mile radius, has a population of over 628,000. The Manchester Metropolitan Area and the Manchester Trade Area are areas that the City believes represent key geographic regions for the City’s growing economy.

The City’s history dates back to 1651 and was first settled in the early Eighteenth Century by John Goffe, on land, which is now the City, that was the disputed territory of Massachusetts and New Hampshire. This land became part of New Hampshire when New Hampshire became a separate province in 1741. In 1751, the area was incorporated as a town and renamed Derryfield. Over the next century, the town evolved from a grazing field into a manufacturing center with major cotton and wool milling industries. Samuel Blodgett, the visionary of this development, compared the town to the industrial center of Manchester, England: hence, in 1810, the name of the town was officially changed to Manchester. In 1846, Manchester was granted its city charter. Manchester was one of the first planned cities in the country. Its streets are laid out in a grid pattern and major streets run parallel to the Merrimack River. In recent years the City’s economy has undergone a transition from one that was manufacturing-based (textiles) to one that includes a diverse array of businesses and industries.



The City is the largest city north of Boston and has been visited by nearly every candidate for President dating back to Abraham Lincoln, especially since the time when New Hampshire began hosting the first in the nation presidential primary every four years. Currently, the City has a diverse economy with a combination of manufacturing, service and retail firms. Once the home of the world's largest textile mill complex, the City is now home to over 200 diversified manufacturing firms along with service firms as noted herein.

The City continues to invest in its downtown and its future. These efforts have brought visitors and residents to the downtown area for dining, recreation, shopping and numerous cultural events. The City has a new civic arena, the Verizon Wireless Arena, which is a \$67 million multi-use facility with approximately 10,000 seats for the American Hockey League's Manchester Monarchs, an affiliate of the Los Angeles Kings of the National Hockey League. A new Arena Football Minor League team, the Manchester Wolves, opened its premier season on April 10, 2004. The City also hosts a number of cultural organizations at the Palace Theatre such as the New Hampshire Symphony Orchestra, the New Hampshire Philharmonic Orchestra and the Opera League of New Hampshire. The City has over 900 acres of parks and playgrounds and also owns the McIntyre Ski Area, which provides substantial recreational resources for the community.

The City's latest downtown investment is the Riverfront Project, which consists of a minor league baseball stadium, presently under construction (the "Stadium"), and other improvements in connection with the economic development and revitalization of the portion of the City bordering the Merrimack River. The revitalization of the riverfront entails the construction of the stadium, retail space, a hotel, luxury townhouses and two residential condominium towers. The stadium will have a capacity of over 7,500 spectators and will become the home of the New Hampshire Fisher Cats, a AA minor league baseball team affiliated with the Toronto Blue Jays. The baseball team opened its first season on April 15, 2004 at Gill Stadium, which is owned by the City and which will serve as the team's home field until the completion of the new Stadium which is expected to be in

April 2005. The Riverfront Project will enhance the City and provide further recreation, entertainment and economic development opportunities.

The City owns and, through its Department of Aviation, operates Manchester Airport. Strategically located in the heart of northern New England, Manchester Airport offers air travelers easy access, competitive airfares, ample parking near the terminal and a growing schedule of non-stop and direct jet service. Manchester Airport, a self-supporting, City-owned entity, is the largest commercial passenger, cargo, and general aviation airport in all of northern New England. Manchester Airport is completing a multi-year terminal and runway expansion project which when completed will permit enhanced service, including coast-to-coast non-stop flights and meet increased demand at the Airport. The terminal and runway expansion projects were financed with the proceeds of revenue bonds issued by the City on behalf of the Airport.

The fact that New Hampshire does not have an earned income tax contributes to the City's low cost of living. In 2000, Expansion Magazine named the City as having among the highest standards of living in the nation along with the #2 lowest tax burdens for renters and also a "5 Star Quality of Life rating measuring communities best suited for business expansion or relocation." The March 2004 issue of Inc. Magazine ranked Manchester #10 in its "Top 25 Cities for Doing Business in America" for small metro areas. The June 2004 issue of Men's Journal ranked Manchester as one of the 10 best small cities in America to live. Kiplinger's Personal Finance reported in June 2004 that Manchester was ranked 7<sup>th</sup> in the nation for communities with the lowest tax burdens on working families. In addition in 2004, Standard & Poors highlighted Manchester as one of six communities nationally to beat the recession. The report credits the City as having characteristics including functioning as a diverse economic center, having conservative and forward thinking management teams, focusing on economic development efforts, and having healthy reserve levels.

The City has maintained a commitment to educating its population. In 2003, the City completed a \$101,410,000 financing for improvements and additions to its existing public school buildings. The City also is the home to two liberal arts colleges, the University of New Hampshire at Manchester and St. Anselm College, and three business colleges, Southern New Hampshire University, Franklin Pierce College and Hesser College among other higher educational schools as noted herein.

The City's historical budget and financial results as well as its fiscal year 2005 budget are discussed herein under the caption "Financial Operations." Over the past five years, due to a City-wide property revaluation, the City's total net assessed valuation of taxable property increased by approximately 37% from \$3.73 billion in 1999 to \$5.18 billion in 2004. See "Appendix B – City of Manchester Selected Financial Information – Assessed Valuations."

As required by City ordinance, the City maintains significant reserves for various purposes, including "rainy day" funds which currently equal approximately 5% of the combined appropriations for the City's General Fund and the Manchester School District. The City also has a Capital Reserve funded through one-time revenues and a Tax Rate Stabilization Fund for valuation fluctuations. In addition, the City, which is self-insured for health, casualty and workers' compensation claims, maintains three actuarially determined reserves to cover each potential liability. See "Financial Operations - Management's Discussion and Analysis" The City also maintains budget and control systems to monitor revenue and expenditures as presented herein.

The Bonds will be general obligations of the City, to the payment of which the City will pledge its full faith and credit. For the payment of principal and interest on the Bonds, the City has the power and statutory authority to levy ad valorem taxes on all taxable property in the City without limitation as to rate or amount.

The factors affecting the City's financial condition and the Bonds described throughout this Official Statement are complex and are not summarized in this introductory statement. This Official Statement should be read in its entirety.

All fiscal year 2004 information presented herein is unaudited and subject to change upon release of the City's audited financial statements for the fiscal year ended June 30, 2004.



## GOVERNMENT AND FINANCIAL CONTROLS

The City operates with a strong mayor form of government. The Mayor is the City's full-time chief executive officer. The Mayor has appointment powers and budget line-item veto authority. The City's current charter (the "Charter") was approved by the voters of the City at the November 5, 1996 general election. The Charter includes an ethics policy, a local initiative option, and calls for the formation of a Charter Review Committee every ten years. The next mandated charter review will be in 2013.

### City Administration

The City is governed by an elected Mayor and a fourteen member Board of Aldermen representing each of the City's twelve wards and two aldermen elected at-large. The executive and administrative powers of the City are vested in the Mayor who is popularly elected for two years on a nonpartisan basis. In November, 2003, the Honorable Robert A. Baines, the City's Mayor, was reelected to his third term in office which commenced January, 2004 and ends in January, 2006. Prior to his first term as Mayor in 2000, Mayor Baines served as a principal in the City's schools for almost 20 years. The Mayor is a past president of the New Hampshire Association of School Principals. He was named New Hampshire Principal of the Year in 1990 and Educator of the Year in 1996 by the Greater Manchester Chamber of Commerce. He also served on the Board of Directors for the National Association of Secondary School Principals from 1993 to 1997 and presently serves on the Board of Trustees of Southern New Hampshire University.

The Board of Mayor and Aldermen approves the City's budget. The Board of Aldermen also nominates and appoints the City's officers. The Finance Committee, consisting of the Board of Mayor and Aldermen, approves labor contracts and also adopts monetary appropriations. The following table sets forth the City's principal executive officers:

<u>Title</u>	<u>Name</u>	<u>Selection</u>	<u>Term Expires</u>
Mayor	Robert A. Baines	Elected	January 2006
City Finance Officer	Kevin A. Clougherty	Appointed (1)	Indefinite
Deputy Finance Officer	Randy M. Sherman	Appointed (2)	Indefinite
Second Deputy Finance Officer	Joanne L. Shaffer	Appointed (2)	Indefinite
City Clerk	Leo R. Bernier	Appointed (1)	Indefinite
City Solicitor	Thomas R. Clark	Appointed (3)	Indefinite

(1) Appointed by the Board of Aldermen.

(2) Appointed by City Finance Officer.

(3) Appointed by the Mayor and approved by the Board of Aldermen.

### City Financial Management and Controls

City financial management is the responsibility of the City's Department of Finance, which is staffed by 14 full-time personnel. The head of the Department of Finance is the Finance Officer of the City. The Department of Finance is responsible for establishing and maintaining a system of controls and financial reporting to ensure that the City's assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with law and generally accepted accounting principles. The Department of Finance also performs significant and ongoing monitoring of the financial performance of the City's departments and enterprise funds, including monthly and quarterly interim reports and forecasted year-end revenue and expenditure balances for all departments. As required by City ordinance and by the Charter, interim financial reports are submitted to the Board of Mayor and Aldermen and all City Department heads. Key revenue and expense items are highlighted in these reports by the Finance Officer for attention by the respective readers.

Interim reports are reviewed with the Committee on Accounts, Enrollment and Revenue Administration (“COA”). The COA is a five member standing committee of the Board of Aldermen. The COA meets on a regular basis to review and to discuss financial matters.

The City has an adopted Investment Policy. The Finance Officer also reports on investment performance to the Board of Mayor and Aldermen on a quarterly basis.

The City has also adopted debt policies and ordinances for the handling of one-time revenues, insurance reserves and undesignated fund balances.

Below are brief resumes of the key employees in the City’s Department of Finance:

**Kevin A. Clougherty.** Mr. Clougherty is the Finance Officer for the City and has served as the Finance Officer since 1988. As the Finance Officer, he oversees the financial operation of all of the City’s departments, including Manchester Airport, the Manchester Water Works and the City’s Environmental Protection Division. Prior to his appointment as Finance Officer of the City, Mr. Clougherty served as Chief Deputy State Treasurer for the State of New Hampshire. Mr. Clougherty currently serves on the Board of Directors of the New Hampshire Public Deposit Investment Pool and as the Chairman of the New Hampshire Municipal Bond Bank as well as serving on the Campaign Cabinet of the Greater Manchester United Way.

**Randy M. Sherman, CPA, CGFM, CTP, CPFO.** Mr. Sherman is the Deputy Finance Officer of the City and has been with the City for 20 years. As Deputy Finance Officer, Mr. Sherman is responsible for the accounting, budgeting and financial reporting functions of the City. He oversees production of the City’s Comprehensive Annual Financial Report, as well as overseeing the City’s expenditures and budgets. In addition, Mr. Sherman handles financial matters relating to the City’s major capital and economic initiatives. Mr. Sherman earned a Bachelor’s degree in Business and Administration from the University of Lowell, and currently holds numerous professional credentials in the areas of accounting, treasury and finance.

**Joanne L. Shaffer, CTP.** Ms. Shaffer is the Second Deputy Finance Officer/Treasury Manager of the City. Ms. Shaffer has been with the City for forty years and has served as the Second Deputy Finance Officer/Treasury Manager since 1998. As the Second Deputy Finance Officer, Ms. Shaffer is directly responsible for maintaining the City’s credit rating, managing the City’s debt, and overseeing the City’s treasury function. As the Treasury Manager, Ms. Shaffer monitors and administers the City’s many investments and revenues, as well as managing the City’s banking relationships.

## **Municipal Services**

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, water and sewer services, highways, and street and sidewalk maintenance. Public education is provided through the Manchester School District (the “MSD”) for grades kindergarten through twelve and vocational education is available in grades nine through twelve. In addition, the City maintains 47 parks, two skating coliseums, the McIntyre Ski Area, the Derryfield Country Club, four municipal pools, and one lake for public use.

The Manchester Housing and Redevelopment Authority provides assisted housing through family developments, elderly developments, and the administration of the City’s participation in the United States Department of Housing and Urban Development Section 8 program.

The Manchester Water Works is the City’s Water Department which owns and operates the City’s water treatment and distribution system. The City owns and, through the Environmental Protection Division (“EPD”) of the City’s Highway Department, operates a regional sewerage treatment plant. The Manchester Airport is a municipal airport. The Verizon Wireless Arena is a City owned, privately managed entertainment complex.

The City is located in Hillsborough County. The principal services provided by the County are a Superior Courthouse, a jail, a nursing home, registrar of deeds, and a probate court.

Below is a summary of each of the areas in which the City provides municipal services.

### *Education*

The MSD is the largest and oldest school system in the State of New Hampshire (the “State”). The MSD includes fifteen elementary schools, including a developmental preschool, four middle schools, three fully accredited high schools, the Manchester School of Technology (a regional vocational/technical school), and a program of adult education. During the 2003-2004 academic year, the MSD served 17,709 students, including Sending District (hereinafter defined) students, and employed 2,541 full-time and part-time faculty and staff.

The public school system comprises 22 school buildings as follows:

Preschool & Elementary	15
Junior High Schools	4
Senior High Schools	3

Enrollment in the Manchester schools for the 2003-2004 school year represents a 0.8% increase over the 2002-2003 school year. The school faculty totals 1,941 full time teaching positions, yielding a student-to-teacher ratio of 9.1 to 1. The table below sets forth recent trends in Manchester’s school enrollments.

ENROLLMENT IN PUBLIC SCHOOLS				
<u>Year</u>	<u>Elementary</u>	<u>Middle/Junior High</u>	<u>Senior High</u>	<u>Total</u>
2003 — 04	7,250	3,704	6,755	17,709
2002 — 03	7,200	3,765	6,610	17,575
2001 — 02	7,277	3,719	6,442	17,438
2000 — 01	7,422	3,713	6,272	17,407
1999 — 00	7,379	3,612	6,056	17,047

Four of the City’s neighboring school districts: the Bedford School District, the Auburn School District, the Candia School District and the Hooksett School District (collectively, the “Sending Districts”) send approximately 1,841 secondary school students to the City’s high schools each year. The Sending Districts have entered into agreements with the City to provide for the payment of tuition and other costs to the City.

The MSD’s middle schools and high schools offer extensive music and art programs, competitive athletics, clubs, and community service organizations. All schools provide opportunities for parents to participate at school or from home through parent associations and volunteer groups. Partnerships with the business community are highly valued. Most schools enjoy one or more business/education collaboratives.

Manchester has an adult evening school program, special education services for learning disabled, mentally retarded and emotionally disturbed children, programs for the deaf, and an English as a Second Language Program. There is also a program of continuing education courses conducted by the School for Lifelong Learning at the University of New Hampshire.

The Manchester area has two liberal arts colleges, St. Anselm College and the University of New Hampshire at Manchester, and three business colleges, Southern New Hampshire University, Franklin Pierce College and Hesser College. The New Hampshire Technical College at Manchester serves as a center for workforce training and development to meet the customized training needs of area businesses and industry. During the past several years, the New Hampshire Technical College at Manchester expanded its facility with a \$4.1 million addition, New Hampshire College became Southern New Hampshire University, the University of New Hampshire opened its downtown campus in a renovated mill building, Franklin Pierce College relocated its

Salem, NH campus to Manchester and Hesser College relocated to new facilities in a renovated manufacturing building. Manchester also has numerous specialized schools.

### *Public Safety*

#### Police Department

The Manchester Police Department has 205 sworn personnel and 72 non-sworn support staff members. Of the total 277 fully accredited employees 8 are funded all or in part by grants.

The Domestic Violence Unit remains a model nationwide since its inception. Recently a Child Victim Advocate Position was added to the unit under a Federal Grant. Two additional Domestic Assault Response Team Officers were added to this unit as well as initial uniformed responders to Domestic Violence calls. These positions are funded by Federal Grants as well.

Recent changes have included the following:

The Police Athletic League (“PAL”) finalized the purchase and recently opened St. Cecelia’s Hall for PAL related activities and functions. The department has appointed its first full-time PAL Officer/Coordinator to oversee the program.

The mounted Unit remains active.

The Mobile Data Terminals remain an integral part of the patrol function and have remained beneficial, providing productivity and efficiency to the patrol officer.

Community Policing and the Elder Service Position remain fully staffed and each position has taken on a variety of public contact responsibilities.

School Resource Officers man three high schools and the City’s four middle schools. This program has been beneficial, allowing officers to keep an eye on the pulse of student activity, both positive and negative.

On – line booking procedures and digital photography continue to enhance the department’s ability to provide instant photography for investigations, the cost and quality have improved for the betterment of the department.

The recent acquisition of a state of the art Evidence Storage unit has drastically increased the department’s storage space for evidence.

#### Fire Department

The Manchester Fire Department (MFD) operates 11 Engine Companies, 6 Aerial Trucks, and one Heavy Rescue/Hazardous Materials company. The MFD operates 10 fire stations located throughout the City.

MFD personnel engage in fire prevention, firefighting, hazardous materials, terrorism and emergency medical services response as well as emergency management functions. The MFD provides “first responder” emergency medical services and administers the City’s contract with a private emergency medical service provider.

Duties performed by MFD personnel include daily preventative maintenance to the buildings, apparatus, and equipment of the department. MFD personnel perform fire prevention inspections and recommend appropriate corrective measures to ensure the safety of the citizens. The department has expanded its emergency services under the Emergency Management personnel to include hazardous materials, bioterrorism and homeland

security response. The department also handles water rescue with three rescue boats. They complete the documentation and reporting requirements of the City and other State and Federal regulatory agencies. The City has a Class II ISO rating, the highest in the State of New Hampshire.

The City opened a new fire station in February 2004 on East Industrial Park Drive, which addresses long standing Insurance Services Office recommendations for enhanced emergency protection for the City's east side. Design is underway for renovations to the South Main Street fire station with construction to be completed in Spring 2005. Design work for a permanent fire station and training facility in the Hackett Hill Road (northwest) section of the City will follow the completion of the South Main Street fire station.

### *Technology*

The Information Systems Department continues to implement and upgrade software applications throughout City departments. During the last 3 years a new Motor Vehicle Registration System, Voter Registration System, Code Enforcement System, Building Permits System, Ordinance Violation System, Occupational Licensing System for the Health Department, and new point of sale software for enterprise services at the Derryfield Country Club and McIntyre Ski Area were installed.

The City continues to expand its metropolitan area network to accommodate police substations and wireless communications. Additional fiber has been installed to fire stations, school buildings, the Youth Center, the newly acquired Rines Center (new location of Health, Welfare and Office of Youth Services Departments), Parks and Recreation Department, and Environmental Protection Division. Mobil data terminals have been installed in police cruisers and fire vehicles.

The City continues to invest in its automation infrastructure by upgrading its computers, networks, communication hardware, fiber plant, desktops and related software. A disaster recovery site is being developed to enhance offsite backups, redundant Internet access, email, firewall and intrusion detection. Redundant application and file and print servers are scheduled to go online during fiscal year 2005. Major efforts have been made to upgrade the City's web site with a new look and feel. Information is provided by every City department. Online services now available include applying for a City job, print and mail forms, online documents, email notification of snow emergencies, and access to assessment and tax billing information. Sewer and Water account information complete with on-line payment options will be available by the end of 2004.

A City-wide geographic information system (GIS) has been recently installed for use by all City departments. A Needs Assessment and Implementation Plan was developed and is currently being executed. The City's tax parcel information is being digitized. Aerial photography, which was completed in April 2003, is being used to update the City's 1995 planimetrics. Digital orthophotography is being developed and City databases are being linked to GIS. A centralized server was acquired to support the GIS.

The Greater Manchester Chamber of Commerce (Chamber) has gone live with a turnkey solution for a 6-month pilot program to build out and operate a free wireless public hotspot serving a central area in downtown Manchester. The provider may continue the hotspot as a commercial venture at the conclusion of the pilot program, without the Chamber's continued sponsorship or affiliation. The public wireless hotspot pilot will accomplish the following objectives: to promote the sense of community in downtown Manchester; to create a vibrant gathering place in downtown Manchester; to promote the visibility and attraction of public places in downtown Manchester; to serve the needs of Manchester's community for broadband access from a public place; to access the World Wide Web, send and receive e-mail, engage in instant messaging, and other legitimate purposes; to promote the usage of broadband and wireless access; to gauge the demand for wireless hotspots in public places throughout Manchester; to gauge the preferences of public hotspot users for different service offerings and service elements; to determine the community's preferences for wireless hotspot access and wireless public hotspot access in downtown Manchester and to evaluate the prospects for future public/private partnerships to offer wireless hotspots throughout downtown Manchester.

## *Economic Development*

The City has made a major effort in recent years to diversify its economy. This planned effort has led to the location of an array of businesses and industries in the City, and has provided a strong base for future economic development activities. Much of this diversification was accomplished through redevelopment projects, which required a high degree of public and private cooperation.

### Master Plan

The City adopted a Master Plan in 1993 to serve as the basis for future land use decisions. The plan is intended to communicate the current needs, desires, and interests of its citizens in the form of recommendations that enable City officials to better provide for the future and ensure that the City acquires and maintains the capability to guide development. The Master Plan is based on various neighborhood master plan workshops as well as a public opinion survey. The Planning Board received the assistance of various public agencies in preparing certain portions of the plan and professional planning consulting firms provided expertise in drafting the various chapters.

The Master Plan provides an inventory of the natural and physical resources of the area, which in turn is intended to guide long range land use recommendations for the development of future housing, industry, and commercial uses as well as long range land use recommendations for the development of open space, recreation, community facilities, and infrastructure. It also provides the basis for the City's zoning ordinance by establishing a blueprint for anticipated land use in terms of location, extent, and intensity of uses and provides a framework and rationale for the development of various implementing ordinances including the City's capital improvement program, site plan review, subdivision and building codes. The City is currently updating the Master Plan for completion in 2005.

### Industrial Parks

There are three industrial parks within the City that were developed by the Manchester Housing and Redevelopment Authority under redevelopment powers granted by the New Hampshire Legislature. As noted below, over 7,000 people work in the industrial parks. The Brown Avenue and Grenier Industrial Parks and the Manchester Air Park are occupied by 50 manufacturing and industrial service companies in over 1.9 million square feet of space, employing approximately 2,900 people. Occupants include nationally known companies such as Moore Business Forms, Sanmina Corporation, TruServe (True Value), and United Parcel Service, Inc.

Sale of the 23 lots in the Manchester Air Park began in 1992. As of April 2004, 21 of the parcels had been sold. New construction completed or in progress totals nearly 500,000 square feet, and these companies have created approximately 905 jobs.

The so-called East Industrial Park is another of Manchester's major employment centers. Infrastructure to the area was installed in 1970, and subsequently this area has been extensively developed with private capital. Approximately 1.3 million feet of space has been constructed, with more than 3,000 people employed. Nationally known firms located here include Hitachi Cable Manchester, Inc., AT&T, Comcast and Verizon Communications.

### Overall Economic Development Program

The City received approval in August 1998 of the third annual update of its Overall Economic Development Program ("OEDP") from the U.S. Department of Commerce Economic Development Administration. The original OEDP, now known as CEDS (Comprehensive Economic Development Strategy), was approved in 1994, and updated in 2001 by a committee of 15 private sector individuals appointed by the Mayor in 2000. Having an approved CEDS is the basis for Manchester's continuing eligibility for funding under programs administered by the Economic Development Administration. The City, through the Manchester Economic Development Office, is now completing its latest update of the CEDS.

### Downtown Revitalization

For the past decade Manchester has focused on its downtown as one of the main cogs of its economic engine. Local government administration agreed to create a position that will focus just on the City's Enterprise Community to encourage development. The Destination Coordinator position has been in existence for four years.

The rehabilitation of the City owned "Chase Building" in the center of downtown is now complete and has been recognized with three preservation awards. This project was made possible utilizing a \$1 million grant from the U.S. Department of Commerce, Economic Development Administration, a \$1 million loan using Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds, a \$1.55 million loan from the HUD Section 108 Loan Guarantee Program, and a \$200,000 loan from the Manchester Development Corporation. The 44,000 square foot, six story structure is a tax deeded property that was made possible by a public/private partnership with a developer who has guaranteed to pay off all debt in exchange for an option to purchase the building at the end of fifteen years. In addition to the Chase Building, the Bond Building and the Dunlap Building have been redeveloped in the same area with the McQuade Building scheduled to be fully completed by December 2004.

The completed "Bond Building" renovation includes approximately 5,000 square feet of retail, 5,000 square feet of office space and 9 units of market rate housing. This project is privately owned and financed through the use of \$1.552 million in HUD Section 108 loans, \$288,000 in CDBG funds and \$150,000 from Manchester Housing and Redevelopment Authority. All funds were loaned to the project with various repayment schedules.

The Dunlap Building was another blighted structure that has been recently renovated. This was made possible through a loan from the City in the amount of \$1.35 million and \$450,000 from the Manchester Development Corporation. This privately owned building contains approximately 5,000 square feet of retail and 20,000 square feet of class "B" office space. The "McQuade Building" is another mixed use project with retail space already leased. Funding utilized \$1.920 million in HUD Section 108 loans, \$250,000 in Manchester Development Corporation loans and a \$230,000 loan from Manchester Housing and Redevelopment Authority.

The Residences at Manchester Place, received approvals from the Board of Mayor and Aldermen to address a long-standing vacant lot at a major downtown intersection. The Residences at Manchester Place began construction at the intersection of Bridge and Elm Streets in June, 2004. The building will contain 204 rental apartment units and 5,200 sq. ft. of retail space fronting on Elm Street, the City's retail spine. The City has committed to financing the construction of an adjacent 300 car-parking garage at a cost of approximately \$5,000,000. This project will be the City's first, new, downtown apartment complex in nearly 18 years. Total construction and development costs for The Residences at Manchester Place are calculated to be \$35.375 million. Funding for the project is as follows: HUD Section 221D(4) Insured Mortgage - \$29,625,000; Section 108 Loan - \$500,000; and Developer Equity - \$5,250,000.

The private sector has also stepped forward to invest in downtown properties. Recently, the second largest building on Elm Street, Hampshire Plaza, was purchased with an eye toward renovations. The thirty-year old property has been successful recruiting new office users such as the Government Services Administration for 60,000 square feet of space. Another privately funded project at 815 Elm Street involved 25,000 square feet of space, which now houses an expanded restaurant, with plans for new entertainment uses on the upper floors.

### Millyard Redevelopment

The Amoskeag Millyard, a major concentration of multi-story brick mills along the banks of the Merrimack River, was once home to the largest cotton textile manufacturer in the world. Since the demise of this industry in New England in the 1930s, the City has taken steps to redevelop and adapt the area for continued business use. Approximately 90% of the buildings in this area have been rehabilitated and are now in use by a diversity of firms, including manufacturing, educational facilities, computer hardware and software, bio-tech and restaurants. One of these buildings is home to three museums: The Science and Engineering Hall of Fame,

Science Enrichment Encounters, and the Manchester Millyard Museum of the Manchester Historic Association. Two other buildings house campus facilities of the University of New Hampshire/Manchester and Franklin Pierce College. Nationally known firms located in the Millyard include Kana Communications, Texas Instruments, and AutoDesk. After completing a national search, The Riverstone Group moved their corporate headquarters to Manchester in 2003. Plans for the final vacant mill building – Pandora – including the establishment of an upscale hotel, are being considered by its owner.

### Riverfront Development

Manchester continues to recognize the tremendous potential of the Merrimack River adjacent to its historic Amoskeag Millyard. A strategy to redevelop its riverfront is reaping great benefits for the City. Key to this strategy is the public investment in development of the Stadium, the pedestrian river walk system (the “Riverwalk”) and parking.

#### *Riverfront Project/Stadium*

The Riverfront Project will include the construction of the Stadium, retail space, a hotel, luxury townhouses and two condominium residential towers. The Stadium will have capacity for over 7,500 spectators and will become the home of a AA baseball team in 2005. The Stadium is expected to cost \$24,400,000 and has been financed, in part, with proceeds of general obligation bonds issued by the City in 2003. The tax revenues from the site and payments to the City from the baseball team are expected to exceed the City’s debt service on the project. With the AA baseball team relocating to the City in 2004, prior to completion of the Stadium, the City and the developer have renovated historic Gill Stadium so that the team can play its 2004 season in the City. This \$5,000,000 renovation will allow the City to have an improved baseball and football venue for high school and amateur sports once the AA team moves to its new home along the riverfront.

The Riverfront Project is an urban revitalization project being undertaken on an approximately 26 acre parcel of land abutting the Merrimack River. The land is owned by the City and is known as Singer Family Park. The project is being undertaken by the City in conjunction with two private real estate developers, 6 to 4 to 3 LLC (the “Stadium Developer”) and Manchester Downtown Visions, LLC (the “Real Estate Developer”), both of which are New Hampshire limited liability companies created for the purposes of carrying out the Riverfront Project with the City. The City has entered into a short term lease of Gill Stadium, a Development Agreement and a Management and Operations Agreement with the Stadium Developer and a Master Lease with the Real Estate Developer pursuant to which the City agreed to apply a portion of the proceeds of general obligation bonds issued in 2003 to finance the costs of constructing the Stadium (\$24.4 million) and renovating Gill Stadium (\$3.1 million) for a total expenditure by the City not to exceed \$27.5 million. The Stadium Developer agreed to design, construct and operate the Stadium and the Real Estate Developer agreed to construct and develop the hotel, retail space and residential developments on the site and to construct an extension to the Riverwalk.

The focal piece of the Riverfront Project is the construction of the Stadium, expected to be completed not later than April 1, 2005. The Stadium will be owned by the City and managed by the Stadium Developer who will be responsible for all operating and maintenance costs. When the Stadium is not being used by the AA baseball team, the City will retain the rights to use the Stadium for its own purposes. The Stadium Developer has agreed to make annual payments to the City in the amount of \$750,000 plus additional annual payments equal to the actual debt service (principal and interest) on \$2.5 million of the bonds issued in 2003. Gill Stadium is an existing 3,500 seat stadium owned by the City, and the improvements to Gill Stadium allowed it to be leased to the Stadium Developer and used by the AA baseball team during its first season in 2004 during construction of the Stadium. The Stadium Developer contributed \$1 million to the renovation of Gill Stadium and the City will contribute an additional \$4.0 million. When the new Stadium is completed, all rights to use Gill Stadium will revert to the City. The Stadium Developer is responsible for any and all cost overruns associated with the construction of the Stadium.

As security for the Stadium Developer’s obligation to make payments to the City, both the Stadium Developer and the Real Estate Developer provided letters of credit for the benefit of the City that are sufficient in



the aggregate to pay three years of debt service on debt issued by the City to construct the Stadium and improve Gill Stadium.

In January, 2003, the City engaged the consulting firm Brailsford and Dunlavey, Washington, D.C., to prepare a market and financial feasibility study with respect to the Stadium. The study concluded that the projected revenues to be generated by the new Stadium could support the operating costs associated with the presence of a AA minor league baseball team and also cover the estimated annual payments to be made by the Stadium Developer to the City while the City's related bonds are outstanding.

The other major component of the Riverfront Project is the development of the approximately 15.9 acres surrounding the Stadium parcel into hotel, retail and residential space and the extension of the pedestrian river walkway. The Real Estate Developer entered into a 49 year lease with the City pursuant to which the Real Estate Developer will pay the City 20% of its net revenues received from all sublessors of the site. A purchase provision in the Lease was exercised by Manchester Downtown Visions, LLC. A closing is expected in early Fall 2004. The Real Estate Developer will be responsible for paying all capital, operating and maintenance costs incurred in connection with the leased parcel, including all property taxes payable to the City.

The total estimated cost of the Riverfront Project is \$29.4 million, approximately \$24.4 million of which is allocable to the construction of the new Stadium and \$5.0 million of which is allocable to the Gill Stadium renovations. Of the total costs, the City has financed \$28.4 million of the costs and the Stadium Developer has financed the remaining \$1 million.

In February 2004, Tyson, Inc. announced the closing of its meat packing plant in the City causing the loss of 550 jobs. Working with state and local agencies, as of August 1, 2004, all of the former Tyson, Inc. employees were reemployed. The Tyson, Inc. property, approximately 17 acres, is located along the Merrimack River just south of the new Stadium and north of Hesser College. The City, through the Manchester Housing and Redevelopment Authority, is negotiating a purchase and sales agreement to acquire the property from Tyson, Inc. In conjunction with the acquisition, the Board of Mayor and Aldermen has authorized the City's Planning Department along with the Manchester Development Corporation to undertake a study of Downtown Manchester to guide the City in shaping future development.

### *Riverwalk*

The core of the pedestrian Riverwalk will extend approximately two miles from the Amoskeag Dam southerly along the Amoskeag Mills and then to the Riverfront Stadium and along to Hesser College. This will also be the central section of the Heritage Trail — a trail system that is eventually expected to run from Massachusetts to the Canadian border. In addition to this north-south trail, a pedestrian bridge will connect to the West Side of the City and the Piscataquog Trail, which will extend to the Piscataquog River Park and to Bedford. To the east, a connection will be made to the abandoned Portsmouth Railroad line, which has been developed into a trail system to the Atlantic coast. When these trail systems are linked the Riverwalk will be the only central hub of a trail system that will span the State from the north to the south and nearly span the width of the State from east to west.

While the Riverwalk will provide the obvious recreational attractions of bringing bicyclists, walkers, joggers, and rollerbladers to the Merrimack River, it will also provide a number of economic development opportunities in the Millyard. A master plan was completed for the area in the Summer of 2003 under the guidance of a Riverwalk Advisory Group. The group is a combination of public officials and non-profit organizations with the common vision of bringing the City back to the Merrimack River. Phase I of the Riverwalk in the vicinity of the new Stadium is now complete. It is expected that the overall Riverwalk will take five years and \$8.5 million to complete. Funding is anticipated to be provided, in part, by the City and through federal grants, and private donations. A private non-profit group has been organized — "Hands Across the Merrimack" — to raise approximately \$1 million in funds to reconstruct the trestle bridge spanning the Merrimack River for the use of pedestrians and bicyclists. The City's FY2005 Capital Improvement budget contains a \$750,000 appropriation for the trestle reconstruction.

## FIRST

During fiscal year 1995, the City acquired a 160,000 sq. ft. brick and timber mill building to serve as the home of the Foundation for the Inspiration and Recognition of Science and Technology (“FIRST”). FIRST is a tax-exempt nonprofit entity. The building is the site of museums to display technological, scientific and industrial exhibits of historic and current interest, including a Science and Engineering Hall of Fame and the New Hampshire Industrial Heritage Museum. FIRST is operated by Dean Kamen, the inventor of the Segway, a two-wheeled, self-balancing human transporter, which was developed in one of Mr. Kamen’s renovated mill buildings located in Manchester’s Millyard.

## Verizon Wireless Arena

This \$67 million project was approved by the Board of Mayor and Aldermen in early 2000, and construction began in earnest in May of the same year. Financing was comprised of 80% public funds through a bond issue by the Manchester Housing and Redevelopment Authority, secured by the pledge of a portion of the City’s share of the State of New Hampshire Meals and Rooms Tax Revenue and 20% private funds loaned by a consortium of local banks against a pledge of contractually obligated income generated at the building. The Verizon Wireless Arena is a 10,000-seat public assembly facility to accommodate sporting events, family shows, concerts, and civic events. The building is professionally managed by SMG under contract to the City and the opening event was held on November 15, 2001. It was designed by an architectural team consisting of a local firm, Lavallee Brensinger Professional Association and a national firm, HOK Sport. The anchor tenant in the building is an American Hockey League franchise, the Manchester Monarchs, an affiliate of the Los Angeles Kings of the National Hockey League. The Manchester Monarchs led the league in attendance for the third straight season with nearly 9,000 spectators per game.

Adding to the success of the Verizon Wireless Arena, Manchester was selected to host the NCAA Division I ice hockey regionals in both 2004 and 2007 and beginning April 2004, the Arena became the home of the Manchester Wolves, an Arena Football Minor League (AF2) franchise. The Wolves led the League in attendance during the team’s inaugural season. The project is viewed as a major component in the City’s efforts to stimulate the revitalization of its downtown area. The Arena, professionally managed by SMG under contract to the City, has been extremely successful and continues to rate in the top three venues nationally in attendance for an arena its size.

## Sport Venues

One of the contributing factors to the revitalization now taking place in Manchester is the focus on the City becoming the sports capital of New Hampshire. Four professional sports teams now call Manchester home. The widely successful Manchester Monarchs who are affiliated with the National Hockey League’s Los Angeles Kings and the New Hampshire Phantoms who are associated with professional soccer’s New England Revolution are two existing franchises. Two new entries that played their first games in April of 2004 include the New Hampshire Fisher Cats, which is the Toronto Blue Jays affiliate in professional baseball’s AA Eastern League, and the Manchester Wolves of the new Arena Football Minor League (AF2). All four teams combine to make Manchester a destination point for entertainment and sports activity.

## Retail

A major retailing area has developed along South Willow Street adjacent to Interstate 293 and Manchester Airport. The anchor development of this retail area is the million square foot Mall of New Hampshire. Occupants of the mall include Sears Roebuck, J.C. Penny, and Filenes as well as more than 100 other retailers of varying size and category. Although developable land in the area is in short supply, limited development continues to occur. Wal-Mart has renovated and assumed occupancy of a Home Quarters facility and a Barnes & Noble Bookstore relocated and expanded its facility. A 10 acre retail development anchored by a Shaw’s Supermarket which opened in December 2003. The City approved a rezoning of a portion of the proposed site in order to allow the

development to proceed. A new hotel has just opened in the area and a new Super Stop & Shop grocery store also opened in August, 2003.

#### Hackett Hill/UNH-Manchester

The City and the University of New Hampshire—Manchester (“UNH-M”) concluded a major real estate transaction in March of 1999. The City acquired 822 acres of land formerly owned by UNH-M for the development of a corporate business park, and UNH-M acquired a 72,000 square foot renovated mill building in the Amoskeag Millyard to consolidate its Manchester operations into a single building. This unique project also assisted the City in compliance with the US EPA mandated Combined Sewer Overflow program by providing for the preservation of 376 acres of the former UNH-M land as a wetlands preserve area. Of that acreage, approximately 342 environmentally rich acres have since been transferred to the Nature Conservancy. Also related to the CSO program, the City negotiated to acquire other contiguous land outside of the UNH parcel to be included within the preserve.

Approximately 150 acres of the remaining site will be developed into a higher end corporate business park. The Manchester Housing and Redevelopment Authority has received two offers on the first parcel in the project – French Hall. As sites are sold, the City will utilize the proceeds to further develop the roadways and infrastructure of the park. The State Department of Transportation has committed to build a new highway interchange with I-293 when the park development reaches the southerly end of the site.

#### *Transportation*

##### Manchester Airport

The City owns and, through the Department of Aviation, operates Manchester Airport. The Airport is located in both the City of Manchester and the Town of Londonderry, New Hampshire, approximately six miles south of the downtown area of the City in both Hillsborough and Rockingham counties. The 1,300-acre Airport is the major air carrier airport in the State of New Hampshire. During Fiscal Year 2004, there were near 1.9 million enplanements at the Airport, representing a 10.4% increase as compared to Fiscal Year 2003. The Airport was one of the few airports in the country to sustain its positive passenger growth in the year following September 11, 2001. Between Fiscal Year 1997 and Fiscal Year 2004, the Airport experienced over 250% growth in the number of passengers enplaned annually due to the growth in service offered at the Airport by low cost carriers.

Strategically located in the heart of northern New England, Manchester Airport offers air travelers easy access, competitive fares, ample parking near the terminal and a growing schedule of non-stop and direct jet service. Manchester Airport is the largest commercial passenger, cargo, and general aviation airport in all of northern New England. The airport is also a designated Foreign Trade Zone.

In 1992, the City financed certain capital improvements to the Airport, including construction of a new terminal building, aircraft aprons and taxiways, and road and parking facilities through an initial State-guaranteed bond issuance in the aggregate amount of \$42,730,000 (the Series 1992 Bonds). In October 1997, the Federal Aviation Administration (the “FAA”) accepted the City’s Master Plan Update (the “Master Plan Update”) to address the then-current aviation needs at the Airport and the projections for future growth in aviation demand. In 1998, the City issued its General Airport Revenue Bonds, Series 1998 in the aggregate amount of \$124,275,000 to fund the initial phases of the Master Plan Update by commencing various runway and roadway improvements and constructing an airport terminal expansion and a new parking garage. In 2000, the City issued its General Airport Revenue Bonds, Series 2000 in the aggregate amount of \$55,990,000 in order to finance additional costs related to the 1998 Project and to further implement certain elements of the Master Plan Update. In 2001, the City issued its General Airport Revenue Bonds, Series 2001 which refunded the Series 1992 Bonds. In 2002, the City issued its General Airport Revenue Bonds, Series 2002 to finance a second terminal expansion, which converted the existing five commuter gates into four mainline jet-bridge-served gates and to rehabilitate and extend Runway 17/35.

The terminal addition was completed in February 2004. The Runway 17/35 project was completed in August 2003 and reopened at its full length. Runway 17/35 is in the process of being upgraded to a Category III ILS, which allows safe landings during the worst visibility and weather conditions.

Future capital projects envision additional parking-lot expansions, including another garage structure, as well as another terminal expansion, all of which will be demand driven by increasing activity and the concomitant requirement for expanded facilities.

Airlines serving the Airport as of August 2004 include Air Canada, Comair (Delta Connection), Commutair (Continental Connection), Continental Airlines, Continental Express, Delta Airlines, Independence Air, Northwest Airlines, Southwest Airlines, United Airlines, United Express, and US Airways and US Airways Express. These airlines provide non-stop service to Albany, Atlanta, Baltimore-Washington, Chicago (O'Hare and Midway), Cincinnati, Cleveland, Detroit, Kansas City, Las Vegas, Nashville, New York (LaGuardia and Newark), Minneapolis, Orlando, Philadelphia, Pittsburgh, Tampa, Toronto, Washington National, and Washington-Dulles. Through plane service is also available to 32 additional markets.

As a result of the terrorist attacks of September 11, 2001, the North American air transportation system was disrupted, leading to a temporary suspension of air travel in the United States. After air travel was reinstated at reduced levels, many airports and airlines suffered much-reduced activity and revenue margins. Contrary to industry trends, Manchester Airport, in the post-9/11 environment, has actually had airlines add service and destinations. This increased activity was significant enough that after September 11<sup>th</sup> the Airport was the first airport in the country to have its bond ratings upgraded. The Airport continued to experience enplanement growth in fiscal years 2002, 2003 and 2004. Southwest Airlines, the Airport's dominant carrier initiated non-stop Las Vegas service in September, 2003. This is a direct result of the lengthening of its main runway, and the Airport is anticipating future non-stop west coast service. Southwest also initiated Philadelphia service in July 2004, resulting in 26 total daily departures and doubling their initial 1998 daily departures.

In response to the Airport's and the City's growth, three major lodging facilities have been or are currently being built in the Airport's immediate vicinity, e.g., Marriott's Spring Hill Suites and Hilton's Homewood Suites, which are on the Airport proper and the new Taje Inn on the Airport's main access road.

Manchester Airport recently commissioned its third Economic Impact Statement assessment in the last decade. The most recent report, prepared by Leigh Fisher Associates, estimates that the fiscal year 2002 estimated economic impact from the Airport on the State of New Hampshire was \$715.6 million, of which \$671.9 million occurred in the Manchester area. Additionally, the 2015 economic impact on the Manchester area is projected to be nearly \$1.5 billion.

The Airport has outstanding \$271,385,000 of General Airport Revenue Bonds. Those bonds are limited obligations payable from net revenues of the Airport. None of the Airport revenue bonds constitute or give rise to any charge against the taxing power of the City.

### Seaport

The Port of New Hampshire in Portsmouth, 45 minutes east of Manchester via NH Route 101, is a year-round deep-water port. It is the site of the state-operated marine terminal, which can handle vessels up to 700 feet in length. A major port facilities expansion has recently been completed. The Portsmouth terminal is a federally designated Foreign Trade Zone as is the Manchester Airport.

### Highways

Manchester is the focal point of New Hampshire's transportation system and is served by a network of highways, including the F.E. Everett Turnpike, U.S. Route 3, and Interstate Routes 93 and 293. Interstate Routes 95 and 495, which intersect Routes 3 and 93 in Massachusetts, are the circumferential highways, which serve the high technology industries of eastern Massachusetts and southern New Hampshire. The downtown area is

accessed by way of Interstate 293. Exit ramps to the area, via Granite Street, were completed in 1984 (the northbound ramp) and in 1986 (the southbound ramp). The City is also at the junction of many of New Hampshire's intrastate highways, including Routes 28, 101 and 114, which lead to all major cities in the State. These highways allow for overnight trucking delivery to all major cities in the Northeast.

The City is responsible for the maintenance of nearly 400 miles of streets. The City has completely reconstructed 14 miles of streets, mostly with its own forces, at a cost of approximately \$13 million over the past 10 years. The City also maintains an annual resurfacing program under which 10 to 20 miles of streets are resurfaced yearly at a cost ranging from \$500,000 to \$1,000,000.

The State of New Hampshire has more than 4,100 miles of state and federal highways. The State Legislature enacts a ten-year highway plan administered by the New Hampshire Department of Transportation ("NHDOT") to serve as a guideline for highway development in the State. Two major components of the plan provide enhanced access to both the downtown and Manchester Airport. Major projects include: completion of the I-293 interchange with Granite Street along with the widening of Granite Street, the highway access road to the Manchester Airport, road improvements in the vicinity of the airport, and the Candia Road reconstruction.

The NHDOT Granite Street project consists of a new interchange at the intersection of Route 293 and Granite Street providing complete northbound and southbound movements. This project is expected to enhance the access to Manchester via Granite Street and will become the primary highway access point to downtown. In particular it will also provide improved access to the Verizon Wireless Arena and the future Stadium and Riverfront Development. This interchange project is scheduled to be completed by the State in 2007, at a cost of over \$30 million. The City is planning its own project to widen Granite Street in conjunction with the State's interchange project. The widening of Granite Street by the City is expected to cost about \$20 million and will also be completed in 2007. The Federal government has already committed \$15 million towards the City's Granite Street project. In addition to the additional traffic capacity that the Granite Street improvements will provide, it is being designed to be a premier "Gateway" into the City with landscaping, bike lanes and sidewalk improvements. All required property acquisitions are either completed or under agreement and the project is out to bid.

Highway access to the Manchester Airport remains a high priority for the City and the State. The NHDOT project consists of a new access road connecting Route 3 and the Everett Turnpike directly to the Manchester Airport. The connector will provide quicker access to the Airport and relieve traffic stress placed on the local roads surrounding the facility. The project is under design and is in the final stages of Federal environmental review. Construction is expected to be completed by the end of 2006 at a cost of approximately \$85 million.

The reconstruction of Candia Road between Interstate Route 93 and N.H. By-Pass 28, partially funded with Federal money, is expected to begin in this calendar year. The City has committed its matching share of this \$9,000,000 project.

The City maintains three bridges over the Merrimack River connecting the City's east and west sides. Construction was completed on the Notre Dame Bridge in 1991. The City doubled the traffic capacity of the bridge by converting it from one span and two-lanes to two spans and four-lanes. The City completed the reconstruction of the Queen City Bridge in 1994. The reconstruction allowed for the widening of the F.E. Everett Turnpike underpass. Reconstruction of the third bridge, the Amoskeag bridge was completed in the Fall of 1999. The City has expended over \$43 million over the past 10 years on the construction and rehabilitation of its major bridges, these being the Notre Dame Bridge, the Queen City Bridge, the Amoskeag Bridge, and the Nazaire E. Biron Bridge over the Piscataquog River. The City also maintains an ongoing inspection, maintenance, and rehabilitation program for all of its 29 bridges. The City's major bridge projects have had 80% funding from the NHDOT Bridge Program.

The City is looking towards the eventual return of passenger rail service to Manchester. City officials are reviewing appropriate locations for a passenger terminal and the State has committed \$10,000,000 towards the development of a parking garage in conjunction with a multi-modal center.

The City has recently expended \$2 million in CDBG funds on the rehabilitation of Elm Street and approximately \$1,000,000 on Stark Street in the downtown area. This effort was mainly directed at traffic calming measures in order to make the downtown more pedestrian friendly and to enhance the downtown retail environment. The City currently has plans to continue this work to establish a pedestrian connection between the Millyard area and Elm Street.

### Freight and Public Transportation

Manchester is served by the Boston & Maine Railroad (Gilford Transportation Industries, Inc.), and freight service is maintained to Boston and connecting lines. Motor freight service to all points is available from a number of nationally known carriers. Daily express service is maintained to all major cities within a 200-mile radius and to New York City. United Parcel Service, Airborne Express, and FedEx provide daily small package air freight service from Manchester Airport. The Manchester Transit Authority provides local scheduled bus service, while regular service to other points, both interstate and intrastate, is provided by Vermont Transit Lines and Concord Trailways. Limousine service from Manchester to Logan International Airport in Boston is offered by several local companies.

### *Utilities*

Gas, electric, and telephone services are provided by private utilities. Water and sewer services are provided by the City, as described below.

Deregulation of the electric utility industry in New Hampshire, and associated enactments by the State Legislature, prompted the City in 1997 to institute the Manchester Area Aggregation Program (“MAAP”) to assist local residents and businesses. MAAP is designed to take advantage of the City’s large buying power by grouping retail electric and natural gas customers to broker or contract for energy supply and services for such customers. The City, as “Aggregator”, is a municipality engaging in the aggregation of customers within its boundaries. Manchester, through its Department of Finance, administers MAAP on behalf of participating municipalities.

A move toward full customer choice in the electric utility industry is expected to place the City in a better competitive position through its Aggregation Program with greater loads and a larger pool of competitors. The manner in which energy services have traditionally been provided has changed as a result of deregulation; however, the implementation of electric transition service rates essentially places a “cap” on the prices MAAP can pay to an alternative supplier. MAAP is taking a comprehensive approach to understanding the energy needs of Participants and devising comprehensive energy strategies to reduce overall energy costs. The second largest city in the State, Nashua, has also adopted an Aggregation Plan and has entered into an intermunicipal agreement with MAAP to administer the program. MAAP administration includes procuring energy supply and services, negotiating and administering contracts entered into by MAAP, and coordinating customer participation in MAAP.

While full competition in the electric industry in New Hampshire has been slowed, MAAP has proceeded with the aggregation of energy efficiency measures. The EEM contracts provide MAAP with access to energy audits and energy efficient fixtures and equipment. Manchester’s implementation of completed energy efficient projects has resulted in reduced energy costs of approximately \$360,000 annually.

### Wastewater Treatment Plant

The City owns and, through EPD operates a regional sewerage treatment plant which provides sewage treatment through inter-municipal agreements for the towns of Bedford, Londonderry, and Goffstown. Under the requirements of the National Pollution Discharge Elimination System Permit issued to the City by the US Environmental Protection Agency (“EPA”), it is required to treat wastewater before it is discharged to receiving waters and meet water quality standards that are outlined in the permit.

The City's wastewater treatment facilities include a wastewater treatment plant, interceptors including sanitary sewers and related pumping stations and appurtenances thereto. The current capacity of the plant is 34 MGD (million gallons per day), with an average current volume of 22 MGD. A recent upgrade provides capacity for the system through the year 2008 as required by the EPA. This project is being financed in part by the State Revolving Loan Fund ("SRF").

The City's sewer department is operated on a self-supporting enterprise basis. The user charge system was established for paying the cost of construction, payment of debt, operation and maintenance, and replacement of the facilities. The charges consists of a service charge (fixed and usage charges based on water consumed (variable) as well as strength of wastewater for industrial users). The rates are enacted by ordinance as recommended by the staff of the Environmental Protection Division ("EPD") to insure that the fund is self-supporting. The current sewer rate, which became effective January 1, 1997, is \$1.55 per 100 cubic fee. It is anticipated that a rate increase will be necessary in fiscal year 2005 in order to ensure the City's sewer department remains self-supporting.

In addition to the user charges, other major sources of revenue include State Aid Grants on the original plant construction as well as the interceptor and the West Side Pump Station, town contributions on the capital expenditures as well as the operations and maintenance costs, investment income on invested surplus balances and cost and interest fees collected on delinquent payments.

The EPD recently completed replacement of the influent mechanical bar screens at the plant at a cost of \$1.3 million. Other major capital projects planned include replacement of sludge dewatering equipment for \$4.1 million.

The EPD completed the Long-Term Control Plan for Combined Sewer Overflows ("CSO") in 1998. The project is currently estimated to cost \$85 to \$160 million. The City signed a Consent Order with the EPA and New Hampshire Department of Environmental Services to address the first phase of the CSO remediation over an 11-year period at an estimated cost of \$59 million.

The EPD has initiated the CSO projects as required by the Consent Order. To date, approximately \$12.2 million of the project components have been completed. The next two components, totaling \$14.4 million, are currently under construction. The EPD has received a \$3.5 million grant from the EPA to assist in paying the cost of these components.

To date, all eligible CSO work has been awarded SRF loans (80%) and State grants (20%). At the conclusion of Phase I in 2009, the City and the EPA will reassess the CSO activity and evaluate the need for a Phase II.

#### Manchester Water Works

The City owns and, through the Manchester Water Works (MWW), operates a regional water treatment plant and distribution system. The management of the MWW is vested in the Water Commission in accordance with the Charter. The Water Commission consists of seven members, of which six are appointed by the Board of Mayor and Aldermen.

The City's water department is operated on a self-supporting enterprise basis. Lake Massabesic supplies water to the City. The City's potable water treatment facility was built approximately 35 years ago, has a 40 million gallons per-day capacity and is at the midpoint of a 30-month upgrade of the facility. Current peak utilization is 30 million gallons per day. The City has an ongoing expansion program, which entails the addition of 30,000 — 50,000 feet of new water mains annually. The distribution system, which consists of approximately 482 miles of water mains and over 3,240 fire hydrants, is maintained and upgraded annually and is in excellent condition.

The MWW is the primary water utility in the south-central region of New Hampshire. Its retail distribution area includes the City and portions of five surrounding municipalities consisting of the Towns of Hooksett, Londonderry, Bedford, Auburn and Goffstown, an area of approximately 55.5 square miles with a population of approximately 115,000. The MWW also supplies water service to four wholesale customers who in turn distribute that water to an area of approximately 25 square miles containing a population of approximately 25,000. The MWW serves approximately 28,000 customers on a wholesale and retail basis across various customer classes.

In August of 2003, the City issued \$38,345,000 of revenue bonds on behalf of the MWW (“MWW Bonds”) in order to finance certain capital improvements and upgrades to the City’s water treatment plant and water distribution system. The MWW Bonds were issued pursuant to a General Water Revenue Bond Resolution (the “Resolution”) adopted by the City prior to the issuance of the MWW Bonds. Under the Resolution, the MWW Bonds are payable solely from revenues of the City derived from the ownership and operation of its water treatment plant and water distribution system, subject to the prior payment of operation and maintenance expenses.

The MWW, through its Board of Water Commissioners (the “Board”), is responsible for setting and imposing the water rates and charges for City residents and for other retail and wholesale customers in the MWW’s service area. The Resolution requires the MWW to maintain rates at levels sufficient to pay operating expenses of the System, to pay debt service on bonds and provide for reserves. The Board voted to implement an overall 14% rate increase effective on July 1, 2003 and also approved a multi-year increase in rates to be implemented in fiscal years 2004, 2005 and 2006, respectively. Prior to the 2003 rate increase, the MWW had not increased rates and charges since 1990. Historically, the MWW has collected approximately 45% of all water bills within 30 days of billing, approximately 85-90% within 60 days of billing and close to 100% within 90 days of billing.

### *Recreation*

The Parks, Recreation & Cemetery Department operates under the guidelines of two individual funding mechanisms. The Enterprise Budget involves revenue-producing facilities that are supported by user fees. The facilities include an 18-hole golf course, two ice arenas, one with a seating capacity of 2600 for ice hockey, a ski area and a semi-professional baseball park, Gill Stadium. Property tax-funded organizations include nine cemeteries, the largest being the 275-acre Pine Grove Cemetery, and Parks Division. The Parks Division responsibilities include management of all City owned passive parks, playgrounds, athletic fields, tennis courts, traffic islands, four aquatic facilities, one public beach and snow removal at twenty-three school buildings.

Recent projects in the Enterprise Division are as follows:

#### JFK Coliseum Ice Arena

- Temperature controls
- New cooling tower and low-e ceiling

#### McIntyre Ski Area

- Complete overhaul of snowmaking system
- Construction of snow tubing park

#### Derryfield Country Club

- Reconstructed 8th and 12th holes, 7th green complex, and 2nd and 18th tee complexes
- Double row irrigation for western section
- Design engineering work underway for construction of new clubhouse, complete with a new restaurant and banquet facility and parking area
- Construction of new maintenance building completed October 2003



West Side Ice Arena

- Temperature controls
- New rink lighting, low-e ceiling, dehumidification system
- ADA improvements to rest rooms, locker rooms and bleachers

The following projects are in various stages of completion in the Parks Division:

Livingston Park Pool & Bathhouse (Completed in June 2004)

- New 11,000 square foot swimming pool
- New 3,000 square foot bathhouse and support facilities
- Parking lot and site improvements

Raco Theodore Pool & Bathhouse (Proposed for fiscal year 2005)

- Complete rehabilitation of the existing Bathhouse
- Reconstruction of the existing swimming pool
- New mechanical building

Memorial High School – Clem Lemire Sports Complex

- Synthetic field with sports lighting
- Rehabilitation of the existing 400-meter running track
- 2,500-seat grandstand and 500-seat visitor bleachers
- 3 support buildings – storage, concession/restroom and team room

Piscataquog River Park

- Rehabilitation of the baseball field
- Rehabilitation of two softball fields at West Junior Deb complex

Brown-Mitchell Park

- New playground and park benches
- Site improvements including athletic fields, sidewalks and small parking area

Derryfield Park – Phase-II

- Renovate two softball diamonds and soccer field
- Construct two parking lots
- Site improvements including sidewalks and landscaping

Piscataquog Trailway – Phase-II

- Trail extension from South Main Street to Electric Street (1.5 miles)
- Paved pathway, lighting and site improvements
- Construction proposed May 2005

South Manchester Rail Trail

- Initial trail project from Spring Garden Street – Goffs Falls Road (1.5miles)
- Paved pathway, lighting and site improvements
- Construction proposed May 2005

Valley Cemetery

- Fence and gate restoration along Auburn Street
- Renovation of sidewalks and entry area at Currier Gate
- New interior site lighting
- Tree maintenance and planting

Revenues supporting recreation operations include rental and user charges at all of the facilities with the exception of the municipal pools.

### *Housing*

The City is involved in a major effort to rehabilitate its center city. This effort is being undertaken in conjunction with the Neighborhood Reinvestment Corporation, a federally chartered and funded nonprofit organization that operates nationwide to assist communities in rehabilitating neighborhoods. This collaboration has resulted in the formation of Manchester Neighborhood Housing Services (“MNHS”), a local nonprofit organization consisting of neighborhood residents, members of the corporate community, and government officials.

MNHS has embarked on a three-phase program to combat neighborhood deterioration. The first phase consists of a revolving loan fund to assist owner occupants in making repairs to their buildings and approximately \$1 million in private funds have been raised to assist in these efforts. Second is the promotion of home ownership by encouraging the purchase, repair, and owner occupancy of single family and smaller multi-unit buildings. The third phase is a rehabilitation program to bring larger multi-family buildings up to contemporary standards for occupancy by rental tenants. A foreclosure prevention component, using City Community Development Block Grant (“CDBG”) funds, is also part of the MNHS effort. MNHS has completed a major affordable housing renovation project on Elm Street and two properties on Temple Court.

The Manchester Housing and Redevelopment Authority has recently become more active in providing new affordable housing projects and is planning four sites – the Brown School, Gale Home and a city parcels at 628 Hanover Street and Wellington Road.

Families in Transition has recently completed an expansion of their transitional housing project on Market Street. This project is located in and was developed consistent with the historic Corporation Housing Historic District.

### *Health And Sanitation*

#### Health

The City Health Department, the area medical community, and community agencies all work together to maintain the City’s excellent health status. The Health Department coordinates the Healthy Manchester Coordinating Council, which is comprised of key community agency, government, health care, education, and business leaders. This body examines public health issues in the community and develops collaborative strategies to improve the health of the public. Over the last five years, this group led the City to a 30 % reduction in adolescent births, community water fluoridation, and improved access to dental and health care for Manchester residents.

The community’s health care providers work closely with the Health Department to insure that emerging public health issues are monitored and addressed through prevention and a quick response. The City was the recipient of a significant Federal grant for public health preparedness that enables it to coordinate community work on issues such as bioterrorism, smallpox vaccination and outbreak response, and SARS. Relocation of the Health, Welfare and Office of Youth Services Departments was completed in 2003 to a building purchased by the City to consolidate services. The building is a more modern and larger facility that is equipped to handle potentially infectious clients and to convene health care providers. The facility is equipped with backup generator power so that the Health Department can fully operate in the event of an emergency, and in fact, provide a fully equipped secondary Emergency Operation Center for the City.

The Health Department provides full time school nursing staff to each of Manchester’s public schools through a long standing relationship with MSD. This enables the Health Department to quickly respond to student health concerns and to link school health services with health services available in the community. From a

variety of funding sources, the Health Department currently employs or contracts with approximately 70 health professionals. Collectively, the public health team provides 24/7 public health emergency response for the City.

There are two primary hospitals in the City. The 255 bed Catholic Medical Center provides comprehensive diagnostic, therapeutic and preventive health services, including cardiac care, CRT scanning, nuclear medicine, corporate fitness and emergency medical services educational programs. The Elliot Hospital has 296 beds and is staffed by 220 physicians, 85% of who are Board Certified in 29 medical specialties. The Elliot has the State's largest center for therapeutic radiation and is the region's designated Trauma Center. Specialty services include walk-in emergency care, a comprehensive rehabilitation medicine unit, Medicare certified home health services, and a free physician referral service. The Laser Center located at the Elliot offers advanced laser surgery as well as regional training for physicians. Women's health services include a Breast Diagnostic Center and the City's only advanced care neonatal unit for critically ill newborns. A Veteran's Administration Hospital is also located in Manchester. The Hitchcock Clinic, founded in 1927 and a component of the Dartmouth Hitchcock Medical Center, operates a medical care facility in Manchester. The Hitchcock Clinic and the Lahey Clinic in Massachusetts merged into a regional group practice with 830 physicians, the third largest multi-specialty group practice in the United States.

Visiting Nurse Association of Manchester provides home health services to area residents. There are over 200 practicing physicians and surgeons with offices in the City, giving a favorable one doctor per 500 population ratio.

The Manchester Community Health Center, a federally qualified health center, provides primary health care services to low income persons.

The Mental Health Center of Greater Manchester provides in patient care for acute cases, day hospital programs for out patient diagnostic and treatment services for children, adolescents, adults, the elderly and alcoholics, emergency services (24 hours a day), consultation, and community education.

### Sanitation

The City provides curbside collection of garbage, rubbish, bulky items, appliances, yard waste, and recyclables. The garbage, rubbish, and bulky waste collection is provided by the Highway Department and the transfer to a lined landfill of this material is provided by Waste Management, Inc. Yard waste and recyclable collections also are provided by Waste Management, Inc. under a long-term, multi-year contract with the City. Appliance collection is also provided by the City's Highway Department through a separate vendor.

The City stopped receiving waste at its landfill in July 1996 and commenced a landfill closure process. To fund closure costs, the City executed an agreement with the State for a State Revolving Fund loan to a maximum principal amount of \$13,850,000. The second and final phase of the landfill closure started in October of 2001 and was completed in October, 2003. At project completion, the final amortization including principal and construction interest amounted to \$13,221,166 and will be payable in annual installments for up to twenty years. The City began repayment in August 2004. The City has the right to prepay principal at any time without a penalty. The City also sold \$200,000 of general obligation bonds in December 2003 for costs deemed ineligible under SRF regulations. Post closure costs have been estimated at \$150,000 per year for 30 years and are subject to appropriation on an annual basis.

In addition to the State Revolving Fund Loan, the State has established a landfill grant program to reimburse municipalities up to 20% of eligible administrative closure costs. The City was accepted to participate in this grant program. In March 2004, the City submitted its State landfill Grant Application for a 20% reimbursement of the project costs. It is anticipated that the reimbursement will be received by September 2004.

## SOURCES OF CITY REVENUES

### Property Taxes

The principal revenue source of the City is the tax on real and personal property. There is no limit as to rate or amount. A single tax is levied for state, county, municipal, and school purposes. For New Hampshire municipalities the “assessment year” for taxing purposes runs from April 1 to March 31 of the following year. Taxes are due in Manchester in two installments, on July 1 and December 1 (subject to deferral if tax bills are sent out late). Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property prior to May 1 of the following year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest, and costs will be accepted and the lien released. During the redemption period, 18 percent interest per annum is charged. Beyond the two year period of redemption, properties are deeded to the City (unless either the lien has been sold by the City, or the City has notified the collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on owners). Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector’s deeds are free and clear of all encumbrances.

The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds.

The most recent revaluation was as of April 1, 2001 and was used to assess property taxes beginning with fiscal year 2002. As part of the Supreme Court decision regarding school funding, cities and towns in New Hampshire are required to undertake revaluations every five years. For more detailed information about the Supreme Court decision and education funding in New Hampshire, see “Appendix B – City of Manchester Selected Financial Information – Education Funding.” See also “Appendix B – City of Manchester Selected Financial Information – Assessed Valuations.” The following table sets forth the trend in the City’s assessed valuations, the state equalized valuations and the tax rate per \$1,000 assessed valuation as of April 1, for each of the last five fiscal years:

#### Property Valuations and Property Tax Levies

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total Net Assessed Valuation	\$3,797,731,850	\$3,831,804,250	\$5,155,060,466	\$5,131,073,404	\$5,182,805,100
Equalized Assessed Valuation	\$3,866,053,601	\$4,968,369,501	\$6,839,606,796	\$8,023,599,321	(1)
Tax Rate Per \$1,000 Assessed Valuation	\$30.49	\$30.68	\$23.82	\$25.68	\$26.40

(1) Not available until May of 2005.

The following table sets forth the City's tax rate per \$1,000 valuation, the gross tax levy, and the tax levy per capita for each of the last five fiscal years.

#### Tax Rates and Tax Levies

<u>Fiscal Year</u>	<u>Tax Rate Assessed Valuation</u>	<u>Gross Tax Levy</u>	<u>Levy Per Capita</u>
2004	\$26.40	\$136,188,242	\$1,259 (1)
2003	25.68	131,015,558	1,211 (1)
2002	23.82	122,059,001	1,129 (1)
2001	30.68	116,779,922	1,088 (1)
2000	30.49	114,960,610	1,074 (2)

(1) Based on the Office of State Planning

(2) Based on the 2000 U. S. census.

The following table sets forth the City's tax levy, overlay reserve, and tax collections for the last five fiscal years.

#### Tax Levies and Collections

<u>Fiscal Year</u>	<u>Gross Tax Levy (1)</u>	<u>Overlay Reserve (2)</u>	<u>Net Tax Levy</u>	<u>Collections During Year In Which Payable</u>		<u>Collections as of June 30, 2004</u>	
				<u>Dollar Amount (3)</u>	<u>% of Net Levy</u>	<u>Dollar Amount</u>	<u>% of Net Levy</u>
2004	\$136,188,242	\$2,108,214	\$134,080,028	\$132,843,876	99.0 %	\$132,843,876	99.0 %
2003	131,015,558	1,598,900	129,416,658	127,986,089	98.9	127,986,089	98.9
2002	122,059,001	1,655,331	120,403,670	118,994,666	98.8	119,971,137	99.6
2001	116,779,922	588,393	116,191,529	114,616,483	98.6	116,139,495	100.0
2000	114,960,610	1,216,255	113,744,355	111,146,564	97.7	113,700,089	100.0

(1) DRA tax rate setting form.

(2) Reserve for abatements and exemptions for war service credits.

(3) Actual collections of levy, including additional warrants (less refunds), and amounts refundable, including proceeds from tax titles, possessions, abatements and other credits.

The annual tax rate and tax levy are established by the State of New Hampshire Department of Revenue Administration ("DRA") in October or November of the fiscal year, based on adopted appropriations of the City and Hillsborough County and anticipated non-property tax revenues. Tax rates and levies are established separately for the county, municipal, and local and state school portions. The DRA approved a 2.8% increase in the overall property tax rate imposed on City taxpayers, from \$25.68 per \$1,000 of assessed valuation for fiscal year 2003 to \$26.40 per \$1,000 of assessed valuation for fiscal year 2004.

The tax levy calculations set forth in the following table for fiscal years 2000 through 2004 are presented in the same manner as supplied to DRA for tax rate setting purposes. A requirement of DRA is that all costs included under departmental appropriations on behalf of the MSD be reflected as part of the school costs and

reduced from the original appropriation category. Therefore, the categorical amounts in the tax levy calculation cannot easily be equated to those shown below under “Fiscal Year 2004 Budget.”

### Calculation of Property Tax Levy

	2000	2001	2002	2003	2004
Departmental Requirements:					
General Government	\$ 15,138,988	\$ 22,412,332	\$ 22,795,572	\$ 21,089,086	\$ 19,369,214
Public Safety	29,385,878	32,896,813	35,675,949	36,920,465	40,196,357
Highways & Streets	16,491,509	18,125,291	15,326,474	18,111,301	18,685,055
Sanitation	1,693,622	1,785,333	6,440,962	2,966,376	2,835,157
Health	2,305,824	2,503,716	2,733,226	2,805,523	3,071,406
Welfare	1,299,024	1,269,737	1,461,074	1,476,875	1,307,294
Culture & Recreation	5,326,011	4,629,710	4,834,839	4,671,441	4,786,541
Economic Development	232,650	2,220,785	2,595,161	2,890,339	2,913,235
Education	102,722,154	106,832,425	115,808,857	121,148,267	126,575,275
Debt Service Requirements					
Principal on Long-Term Loans	9,175,353	10,287,693	10,034,398	10,890,802	10,363,628
Interest on Long-Term Loans	4,157,805	3,585,996	3,298,349	5,181,213	5,864,924
Non-Departmental Requirements:					
Transit Subsidy	674,000	663,330	725,000	725,000	850,000
Motorized Equipment	419,550	399,900	382,500	50,000	120,000
County Tax	7,494,747	8,045,138	8,736,858	8,465,440	8,770,087
Veterans Exemptions	623,155	590,700	573,400	575,200	565,500
Overlay Reserve for Abatements	593,100	(2,307)	1,081,931	1,023,700	1,542,714
Total Estimated Requirements	<u>197,733,370</u>	<u>216,246,592</u>	<u>232,504,550</u>	<u>238,991,028</u>	<u>247,816,387</u>
Estimated Revenues:					
Taxes, Penalties & Interest	1,716,703	1,587,210	1,152,162	1,140,787	1,262,999
Auto Registration	11,246,450	12,682,000	14,913,000	15,569,000	15,681,000
Licenses & Permits	3,290,916	3,888,400	3,806,100	4,422,038	4,459,276
State and Federal Revenues	7,660,814	8,160,596	8,533,036	8,862,815	9,080,714
Charges for Services	2,834,305	11,138,603	16,507,345	5,816,757	6,292,008
Interest	1,800,000	1,700,000	1,825,000	1,816,000	1,000,000
Surplus	700,000	1,800,000	1,500,000	2,250,000	1,600,000
Trust & Agency Funds	300,000	300,000	300,100	300,000	-
Miscellaneous	284,620	3,862,130	1,589,419	10,317,663	10,173,950
Education Adequacy Grant	36,878,752	36,878,752	42,283,387	42,473,084	45,567,271
State Education Taxes (1)	25,515,954	25,515,954	28,447,547	29,155,221	27,840,016
School Revenues	<u>16,060,200</u>	<u>17,468,979</u>	<u>18,036,000</u>	<u>15,007,326</u>	<u>16,510,927</u>
Total Estimated Revenues	<u>108,288,714</u>	<u>124,982,624</u>	<u>138,893,096</u>	<u>137,130,691</u>	<u>139,468,161</u>
Tax Levy	<u>\$ 89,444,656</u>	<u>\$ 91,263,968</u>	<u>\$ 93,611,454</u>	<u>\$ 101,860,337</u>	<u>\$ 108,348,226</u>

(1) State Education Taxes are included as part of the City's total tax levy.

As shown in the table above, for purposes of calculating the property tax levy, estimated departmental budgetary requirements, which in fiscal year 2004 totaled \$247,816,387, are assumed to be funded first from estimated non-tax revenues, which in fiscal year 2004 totaled \$139,468,161. The remaining budgetary requirements are then assumed to be funded from the property tax levy.

## **Non-Property Tax General Fund Revenues**

Historically, thirty-five to forty percent of the combined City and MSD General Fund revenues are generated from sources other than property taxes. Of the total non-property tax revenue, over seventy-five percent has come from three sources: the State, school tuition, and motor vehicle registration fees, as described below:

### *State of New Hampshire*

Education Adequacy Grant – Result of Supreme Court ruling “that it was the State’s duty to provide a constitutionally adequate public education and to guarantee adequate funding.” Funded through the combination of a State commitment/appropriation and a uniform statewide education property tax on a per student basis. For more detailed information about education funding in New Hampshire, see “Appendix B – City of Manchester Selected Financial Information – Education Funding.”

Revenue Sharing — The State of New Hampshire distributes a percentage of its general revenues to cities and towns. An annual payment is made on December 15, subject to annual appropriation by the State.

Rooms & Meals Tax Distribution — The State of New Hampshire distributes a portion of its Meals & Rooms Tax to cities and towns on a population basis. Payments are made on September 15 and December 15, subject to annual appropriation by the State. The distributed amount is determined by the annual growth in the State’s Meals & Rooms Tax revenue.

Highway Block Grant — The State of New Hampshire annually distributes highway funds to cities and towns for the purposes of construction, reconstruction, resurfacing and bridge inspection. Payments are made on a quarterly basis and are not subject to an annual appropriation.

School Catastrophic Aid — The State of New Hampshire annually appropriates funds to be distributed to cities and towns for assistance in meeting special education costs.

School Building Aid — Subject to annual appropriation, the State of New Hampshire provides annually to cities and towns a grant equal in amount to 30 percent of the amount of their annual payment of principal on all outstanding debt for school construction purposes.

### *Motor Vehicle Registration Fees*

The City collects motor vehicle permit fees at the time of annual registration. Registration dates are based on each vehicle owner’s birthday. The fee is based upon the list price of the vehicle in the year of its manufacture according to a state statutory formula.

### *School Tuition*

Children living with parents or guardians in communities surrounding Manchester that do not maintain a high school or school of corresponding grade may attend a Manchester school on a tuition basis. Tuition rates are established by the State Department of Education and by agreement with the City in the case of the City's high schools.

The following table sets forth the City's General Fund revenues from sources other than the property tax for the past five years.

NON-PROPERTY TAX GENERAL FUND REVENUES					
	Fiscal Year Ended June 30,				
	2000	2001	2002	2003	2004
<b>Taxes, Interest And Penalties</b>					
Boat Taxes	\$60,556	\$42,713	\$40,478	\$44,192	\$35,257
Miscellaneous Taxes	61,197	82,921	26,374	38,411	47,714
Interest And Penalties	812,952	945,573	814,574	611,900	596,518
Cable Franchise Fees	552,896	1,018,892	1,106,312	995,354	1,033,635
	<u>1,487,601</u>	<u>2,090,099</u>	<u>1,987,738</u>	<u>1,689,857</u>	<u>1,713,124</u>
<b>Intergovernmental</b>					
Federal Revenues	257,745	157,269	209,607	185,486	425,213
Payments In Lieu Of Taxes	424,321	408,334	449,795	486,287	497,321
State Revenues*	6,067,566	5,971,116	5,986,058	6,076,518	6,058,926
	<u>6,749,632</u>	<u>6,536,719</u>	<u>6,645,460</u>	<u>6,748,291</u>	<u>6,981,460</u>
<b>Licenses And Permits</b>					
Auto Registrations	12,759,165	13,881,935	14,603,012	14,726,729	15,268,916
Licenses	384,635	384,500	395,068	395,971	421,909
Permits	3,089,190	4,177,503	4,746,550	5,426,660	5,775,377
	<u>16,232,990</u>	<u>18,443,938</u>	<u>19,744,630</u>	<u>20,549,360</u>	<u>21,466,202</u>
<b>Sales And Services</b>					
General Revenues	146,226	170,453	176,678	186,511	153,787
Public Safety	161,469	167,635	174,454	171,417	233,984
Highways And Streets	1,566,803	1,686,400	1,453,258	1,246,883	1,394,081
Civic Center Parking	-	-	371,008	426,605	293,007
Sanitation	8,800	9,199	27,523	32,264	29,188
Health	24,233	8,570	7,925	6,299	8,310
Cemetery	135,255	176,200	187,130	157,572	168,456
Zoning Board	24,040	21,960	28,300	44,033	57,142
Parks And Recreation	3,655	3,185	5,430	6,004	5,285
Sewer Cost Recoveries	33,027	(6,834)	25,393	41,823	36,556
Parking Violations	747,581	805,179	952,445	945,053	1,206,033
Court Fines	42,934	35,282	46,359	41,792	55,581
Other Fines	6,287	12,125	10,743	8,582	17,103
Fees	595,905	711,902	789,723	937,928	951,610
Witness Fees	95,943	85,797	81,170	106,901	95,059
	<u>3,592,158</u>	<u>3,887,053</u>	<u>4,337,539</u>	<u>4,359,667</u>	<u>4,705,182</u>
<b>Other Revenue Sources</b>					
Interest Income	2,548,473	2,255,766	1,132,648	736,111	736,021
Fund Transfers	357,389	350,100	300,100	308,469	336,070
Reimbursements & Health Audit	1,041,711	1,096,980	1,477,356	1,013,330	886,663
Rentals	46,851	55,969	19,973	95,037	9,403
School Chargebacks	5,212,854	6,690,532	7,409,766	6,689,601	6,892,618
Miscellaneous	199,069	140,487	213,490	119,434	1,166,384
	<u>9,406,347</u>	<u>10,589,834</u>	<u>10,553,333</u>	<u>8,961,982</u>	<u>10,027,159</u>
<b>TOTAL</b>	<u>\$ 37,468,728</u>	<u>\$ 41,547,643</u>	<u>\$ 43,268,700</u>	<u>\$ 42,309,157</u>	<u>\$ 44,893,127</u>

Source: Comprehensive Annual Financial Reports for Fiscal Years 2000 through 2003. Fiscal Year 2004 is unaudited.

\*Does not include State Education Adequacy Grant or MSD Revenues.



## FINANCIAL OPERATIONS

### Financial Statements

Audited financial statements of the City's accounts are prepared annually. The most recent audit was performed by McGladrey & Pullen, LLP for the 2003 fiscal year, and the audited statements are attached as Appendix C to this Official Statement. Set forth below is a Comparative Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance for the years ended June 30, 2000 through June 30, 2004. The General Fund revenues and expenditures below exclude revenues and expenditures with respect to the MSD. All fiscal year 2004 information presented herein is unaudited and subject to change.

### GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	June 30,				
	2000	2001	2002	2003	2004
REVENUES:					
Taxes	\$ 60,190,452	\$ 58,628,056	\$ 59,020,928	\$ 59,369,549	\$ 63,041,286
Federal & state grants and aid	7,302,746	7,146,789	7,291,673	7,549,154	8,075,517
Charges for services	3,615,039	3,898,497	4,432,086	4,491,647	4,690,757
Licenses and permits	16,212,440	18,432,863	19,744,630	20,521,738	21,454,035
Interest	2,548,473	2,255,766	1,132,648	736,111	735,047
Other	6,655,281	7,942,319	9,120,585	8,594,706	11,605,505
TOTAL REVENUES	<u>96,524,431</u>	<u>98,304,290</u>	<u>100,742,550</u>	<u>101,262,905</u>	<u>109,602,147</u>
EXPENDITURES:					
General government	17,751,003	17,384,526	18,368,831	18,658,422	19,780,704
Public safety	29,689,148	32,148,521	34,556,506	35,444,763	39,262,585
Health & sanitation	2,304,060	2,620,250	2,711,544	2,462,857	2,803,302
Highway and streets	18,505,080	19,717,326	20,099,068	19,902,962	21,184,604
Welfare	1,213,010	1,401,741	2,146,722	1,352,284	1,264,493
Education	3,049,175	2,184,410	2,258,746	2,145,815	2,417,556
Parks and recreation	2,790,074	2,940,972	3,034,011	2,992,399	3,203,765
Pension benefit payments			18,960,260		
Debt service:					
Principal retirement	9,370,788	10,287,693	11,030,422	10,890,802	9,630,629
Interest	3,967,702	3,586,005	3,565,940	5,181,212	5,856,376
Issue Costs	183,795		158,662		
TOTAL EXPENDITURES	<u>88,823,835</u>	<u>92,271,444</u>	<u>116,890,712</u>	<u>99,031,516</u>	<u>105,404,014</u>
REVENUES OVER EXPENDITURES	<u>7,700,596</u>	<u>6,032,846</u>	<u>(16,148,162)</u>	<u>2,231,389</u>	<u>4,198,133</u>
Other Financing Sources (Uses)					
Proceeds of refunding bonds	4,286,068		14,150,020		24,490,273
Payment to refunded bond escrow agent	(4,252,111)		(13,996,706)		(24,276,368)
Pension Obligation Bonds			18,960,260		
Operating transfers in	350,100	350,100	769,277	561,912	335,539
Operating transfers out	(2,610,467)	(2,532,600)	(1,620,742)	(1,790,165)	(2,467,476)
Other Financing Sources - Net	<u>(2,226,410)</u>	<u>(2,182,500)</u>	<u>18,262,109</u>	<u>(1,228,253)</u>	<u>(1,918,032)</u>
REVENUES AND OTHER SOURCES OVER EXPENDITURES	5,474,186	3,850,346	2,113,947	1,003,136	2,280,101
FUND BALANCE, BEGINNING OF YEAR	<u>10,367,282</u>	<u>15,841,468</u>	<u>19,691,814</u>	<u>21,805,761</u>	<u>22,808,897</u>
FUND BALANCE, END OF YEAR	<u>\$ 15,841,468</u>	<u>\$ 19,691,814</u>	<u>\$ 21,805,761</u>	<u>\$ 22,808,897</u>	<u>\$ 25,088,998</u>

Source: Comprehensive Annual Financial Reports for Fiscal Years 2000 through 2003. Fiscal Year 2004 is unaudited.

## **Accounting Methods**

The City follows generally accepted accounting principles (“GAAP”) for governmental units when reporting its financing operations except as indicated in footnote 1 of the City’s General Purpose Financial Statements presented in Appendix C.

For the fiscal year ended June 30, 2003, the City’s financial statements were prepared in accordance with generally accepted accounting principles as outlined in Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* (“GASB 34”). GASB 34 was first effective for the City for the year ended June 30, 2002. For more information concerning the implementation of GASB 34 by the City, see the first paragraph on page C-6 of the City’s General Purpose Financial Statements appearing in Appendix C hereto.

## **Fiscal Year 2004 Results**

Fiscal year 2004 General Fund revenues totaled \$109,602,147, which was \$8,339,242 higher than fiscal year 2003 General Fund revenues of \$101,262,905. Fiscal year 2004 expenditures totaled \$105,404,014, resulting in a \$4,198,133 surplus of General Fund revenues over expenditures.

The overall increase in revenues during fiscal year 2004 was primarily due to an increase of approximately \$3.7 million in property tax receipts and an increase of approximately \$932,297 in building permitting and licensing fees. The City generated a fiscal year 2004 General Fund surplus, despite continued pressures from the weak economy and a decline in non-property tax revenues from fiscal year 2003 of approximately \$719,000. Early detection of the non-property tax revenue shortfall allowed the Board of Mayor and Aldermen to reduce expenditures during the year. Through continued monitoring and management of overtime and vacancies, the City offset its revenue shortfalls. Other decreases in fiscal year 2004 General Fund revenues were due to lower MSD reimbursements (by approximately \$368,000) and investment earnings (by approximately \$264,000).

Fiscal year 2004 General Fund expenditures increased by \$6,372,498 from \$99,031,516 in fiscal year 2003 to \$105,404,014 in fiscal year 2004.

## **Budget and Appropriation Process**

The Charter provides for the Mayor, and such other officials as the Mayor shall select, to prepare a budget for consideration by the Board of Aldermen. The Mayor’s proposed budget must include certain historic and projected expense and revenue information and statements of anticipated tax levy and debt service requirements. The Mayor’s proposed budget is referred to a public hearing. After the public hearing the Board of Mayor and Aldermen may adopt the proposed budget with or without amendment. If amendments are made, a second public hearing may be held prior to final adoption. The Mayor may veto the entire budget or line items thereof. In the event of a veto all portions of the budget not vetoed shall be passed. If the Board of Mayor and Aldermen fails to adopt appropriation resolutions for the ensuing fiscal year by June 30<sup>th</sup>, the Mayor’s budget as originally proposed shall prevail.

The Charter also provides for supplemental appropriations, reductions of appropriations and transfers of appropriations under certain limited circumstances.

## Fiscal Year 2005 Budget

The fiscal year 2005 combined General Fund budget for the City and the MSD contains an appropriation increase of 7.4% over the Fiscal 2004 budget. Non-property tax revenues are anticipated to remain flat. In the formulation of the Fiscal 2005 budget, the Board of Mayor and Aldermen, after consultation with the Department of Finance and the City's assessing department, produced a budget to meet all contracted obligations without lay-offs or reductions in City services. The areas of concern in developing the fiscal year 2005 budget were a continued sluggish economy leading to flat collections of non-property tax revenues, an obligation to maintain the highest possible level of public safety, health and education, and a reduction in the State Educational Adequacy Grant of approximately \$4 million. The City believes that it has met all of those concerns in the final adopted fiscal year 2005 budget.

The following table sets forth the City's General Fund operating budgets for fiscal years 2003-2005. Enterprise funds, the County tax, veteran exemptions and the overlay reserve for abatements are excluded from this table.

### BUDGET TRENDS

	2003		2004		2005	
	Amount	%	Amount	%	Amount	%
Education*	\$125,898,267	54.7 %	\$126,575,275	54.3 %	\$137,499,619	54.9 %
General Government	19,276,497	8.4	18,172,463	7.8	20,421,213	8.2
Public Safety	37,096,643	16.1	40,134,677	17.2	41,736,476	16.7
Highway and Streets	21,247,079	9.2	21,520,212	9.2	22,190,323	8.9
Health and Welfare	4,438,720	1.9	4,378,700	1.9	4,500,243	1.8
Culture & Recreation	5,748,578	2.5	5,819,972	2.5	6,045,190	2.4
Economic Development	273,178	0.1	172,000	0.1	229,989	0.1
Motorized Equipment	50,000	0.0	120,000	0.1	200,000	0.1
Debt Service**	16,072,015	7.0	16,228,552	7.0	17,558,150	7.0
Total Budget	<u>230,100,977</u>	<u>100.0 %</u>	<u>233,121,851</u>	<u>100.0 %</u>	<u>250,381,203</u>	<u>100.0 %</u>
Less MSD Budget	(125,898,267)		(126,575,275)		(137,499,619)	
General Fund Budget	<u>\$104,262,710</u>		<u>\$106,546,576</u>		<u>\$112,881,584</u>	

\* Includes debt service on general obligation bonds issued for school purposes and debt service on the City's School Facilities Revenue Bonds, Series 2003 issued in fiscal year 2004. Approximately \$5 million of the amount shown for fiscal year 2005 is allocable to debt service payable with respect to such bonds. See "Appendix B – City of Manchester Selected Financial Information – Debt Summary" and "Appendix B – City of Manchester Selected Financial Information – Debt Service Requirements."

\*\* Does not include debt service on any bonds issued for school purposes. See "Appendix B – City of Manchester Selected Financial Information – Debt Service Requirements."

## Enterprise Funds

The City currently accounts for the operations of the Aggregation Program, the Manchester Airport, the Wastewater Treatment Plant, the Manchester Water Works, and Recreational Facilities as enterprise funds. These operations are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis will be recovered or financed through user charges. Each of these enterprise funds are intended to operate on a self-supporting basis from revenues provided in connection with each fund. For more detailed information about each

of the enterprise funds, see “Appendix A – City of Manchester – Selected Economic Indicators and Other Information.”

## **PLAN OF FINANCE**

### **Sources and Uses of Funds**

The proceeds from the sale of the Bonds are expected to be applied as follows:

#### **Sources:**

Par Amount of the Bonds	\$11,730,000.00
Net Original Issue Premium	<u>955,994.70</u>
Total	\$12,685,994.70

#### **Uses:**

Refunding Escrow Deposit	\$12,530,766.08
Costs of Issuance*	<u>155,228.62</u>
Total	\$12,685,994.70

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\* Includes Underwriter's discount.

### **Plan of Finance**

Bonds and notes are authorized on behalf of the City by a two-thirds vote of the fourteen aldermen. State administrative approval is required prior to borrowing for certain purposes, e.g. Pension Obligation Bonds that were sold as part of the City issue in November, 2001.

The general debt limit of the City is 9.75% of base valuation, as described below. Not more than 7% of the base valuation may be incurred for school purposes. Water and sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment, and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by special legislative acts rather than the general municipal finance statutes are sometimes excluded from a city or town's debt limit.

The base valuation for computing the debt limit is determined by adding the amount of taxable property lost to cities, towns and districts as a result of the enactment of the State Business Profits Tax Law to the “equalized assessed valuation.” As of June 30, 2004, the City had a total outstanding general obligation debt and subject-to-appropriation debt of \$155,226,019 and authorized and unissued general obligation debt of \$7,848,834 which will be subject to its general debt limit.

The City's general debt limit is \$815,916,140. The remaining borrowing capacity under the general debt limit is \$660,690,121.

### **Plan of Refunding**

The Bonds were authorized by resolutions of the Board of Mayor and Aldermen adopted on various dates. The Series Bonds are being issued to refund, prior to maturity, certain outstanding general obligation bonds of the City as listed in Appendix F hereto (the “Refunded Bonds”).

The escrow fund will be held by The Bank of New York, as escrow agent (the “Escrow Agent”), pursuant to the terms of an escrow agreement (the “Escrow Agreement”). The Refunded Bonds will be called and redeemed on various dates. The net proceeds of the Bonds (after payment of the underwriting fee and other costs of issuance of the Bonds) will be applied to the purchase of obligations issued or guaranteed by the United States of America (the “Escrow Securities”). The portfolio of Escrow Securities will mature and bear interest sufficient to meet the principal, interest and redemption premium, if any, requirements of the Refunded Bonds.

The holders of the respective Refunded Bonds will have a first lien on all investment income from, and maturing principal of the Escrow Securities, along with other available moneys held in escrow fund under the Escrow Agreement. The Escrow Agreement will terminate upon final payment by the Escrow Agent to the respective paying agents/fiscal agents for the Refunded Bonds amounts from the escrow fund adequate for the payment, in full, of the Refunded Bonds, including principal, interest and redemption premium, if any, payable with respect thereto.

The plan of refunding will permit the City to realize, as a result of the issuance of the Bonds, cumulative dollar and present value debt service savings.

Under the plan of refunding, the Refunded Bonds will continue to be general obligations of the City. However, in as much as the Escrow Securities held in the escrow fund pursuant to the Escrow Agreement will be sufficient to meet all required payments of principal, interest and redemption premium, if any, of the Refunded Bonds, it is not anticipated that any other source of payment will be necessary.

## **Capital Budget**

Currently, the largest authorized unissued resolutions are for refinancings. The dollar amounts of these authorizations are: \$100,000,000 for General Airport Revenue Bonds; \$30,000,000 for General Obligation Bonds and \$90,000,000 for School Facilities Revenue Bonds.

The City’s authorized unissued general obligation debt as of June 30, 2004 for new projects is approximately \$5.5 million. See “Appendix B – City of Manchester Selected Financial Information – Debt Summary.” This is partially due to the fact that the Capital Improvement Program for fiscal year 2005 has just recently been approved and the authorizations for those projects have not yet been submitted to the Board of Mayor and Aldermen for final approval. Some of those fiscal year 2005 authorizations have already been granted in the total amount of \$10,000,000 for General Fund Related Projects and \$8,000,000 for Enterprise Related Projects.

The EPD Enterprise continues to administer a large number of sewer-related projects that are also utilizing SRF funding in excess of \$30,000,000. These projects include Sludge Dewatering, various CSO Abatement Projects, Treatment Plant Odor Control, and the Cohas Brook Interceptor Project. Features of the program, offered through the Department of Environmental Services, are low interest financing during the construction phase of the project and the option to negotiate with the State for long-term financing arrangements after project completion.

The MWW has \$6,116,880 of authorized, unissued debt, of which \$3,000,000 is anticipated to be used for the final phase expenses of the Water Treatment Plant Upgrade. It is also expected that an SRF loan under the Drinking Water Revolving Fund will be utilized for that project.

The Recreation Enterprise reflects \$2,300,000 in authorized but unissued borrowing authority which is the City’s share of a public/private endeavor that would provide the funds to construct a new multi-purpose clubhouse/banquet facility at the City’s municipal golf course.

### *Trend in Tax Anticipation Note Borrowings*

The City has not issued tax anticipation notes since fiscal year 1992 and does not expect to do so in the foreseeable future.

### *Overlapping Debt*

The City is situated in Hillsborough County. As of June 30, 2004 there is no overlapping debt, and it is not expected that there will be in the foreseeable future.

### *Community Improvement Program*

The City publishes annually a Community Improvement Program report identifying human service programs and future capital outlay project needs. The program serves as a management tool and input is requested from City officials, department heads and residents. The program is a framework, not a firm commitment on the part of the Board of Mayor and Aldermen. The first year usually constitutes a recommended budget. The program is addressed at various public meetings and discussions involving department heads and finance committee members. This process allows major capital improvement projects to be identified several years in advance of their authorization through the local governmental process.

The following table shows the City's projected capital project needs and funding sources for the fiscal year 2005. The 2005 capital expenditures consist of projects funded with general obligation bonds as well as cash and federal grants.

#### **COMMUNITY IMPROVEMENT PROGRAM Capital Expenditures with Funding Source**

<b>Projects</b>	<b>2005</b>	<b>Bonds</b>	<b>Federal/State</b>	<b>Cash</b>	<b>Enterprise</b>
Health & Human Services	\$ 2,767,865		\$ 2,434,900	\$ 332,965	
Education	10,703,000		10,703,000		
Public Safety	2,823,600	\$ 1,600,000	1,068,000	155,600	
Recreation & Leisure	7,895,812	6,810,000	810,312	275,500	
Housing & Community Development	2,263,808		2,111,208	152,600	
Transportation & the Environment	7,971,000	5,210,000	1,981,000	780,000	
Community Management	7,322,000	6,380,000	737,000	205,000	
* Aggregation	-				
* Recreation	1,050,000				1,050,000
* Water Works	-				
* Environmental Protection	9,330,000				9,330,000
Total	<u>\$ 52,127,085</u>	<u>\$ 20,000,000</u>	<u>\$ 19,845,420</u>	<u>\$ 1,901,665</u>	<u>\$ 10,380,000</u>

\*Enterprise funds, self-supporting

The City has established the following capital borrowing guidelines for general-purpose debt:

- (1) Annual debt service is not to exceed 20 percent of gross revenue.
- (2) Annual increases in debt service payments are not to exceed 20 percent.
- (3) Total outstanding bonded debt is not to exceed 12 percent of the City's assessed valuation.
- (4) Minimum annual debt retirement must be 8 percent of outstanding debt.

The City is in compliance with these guidelines and is currently in the process of reviewing these guidelines in order to have them conform to the financial needs of the City and prudent credit criteria.

## **THE BONDS**

### **Description**

The Bonds are dated their date of original delivery, and will mature in the principal amounts in each year and will bear interest at the interest rates as shown on the cover page of this Official Statement. Interest on the Bonds will be payable on June 1 and December 1 of each year commencing December 1, 2004. The record date for payment of the principal of and interest on the Bonds is the fifteenth day of the calendar month preceding each interest payment date.

The Bonds will be issued in registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. Individual purchases will be made in book-entry-form only, in the principal amount of \$5,000, or integral multiples thereof. Purchasers will not receive certificates representing their ownership interests in the Bonds. Principal and interest on the Bonds will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants for subsequent distribution to the Beneficial Owners of the Bonds as described herein. See “Book-Entry-Only System”, herein. The Bonds will not be subject to redemption prior to maturity. The Bonds may be transferred in the manner described on the Bonds and as referenced in certain proceedings of the City referred to therein.

### **Nature of Obligation**

The Bonds will be general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal and interest the City has the power and statutory authority to levy ad valorem taxes on all taxable property in the City without limitation as to rate or amount.

Chapter 33 of the New Hampshire Revised Statutes Annotated (“RSA”), known as the “Municipal Finance Act” provides the amount of each payment of principal and interest on all loans issued by a municipality shall, without vote of the municipality, be annually assessed and collected. No provision is made, however, for a lien on any portion of the tax levy to secure bonds and notes, or judgments thereon, in priority to other claims.

The obligation of the City and the enforcement thereof are subject to exercise of the sovereign police power of the State of New Hampshire and the constitutional powers of the United States of America, to the federal bankruptcy act and other existing and future laws affecting creditors’ rights to the extent the same may be constitutionally applied, and to the exercise of judicial discretion in accordance with general equitable principles.

### **Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic

computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of securities held under the DTC system must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security held by DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities held by DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such securities, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities held by it; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to securities held by it unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer of the securities or its paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent, or the issuer of the securities, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized



representative of DTC) is the responsibility of the issuer or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to City or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

Neither the City nor its paying agent will have any responsibility or obligation to the Participants of DTC or the persons for whom they act as nominees with respect to (i) the accuracy of any records maintained by DTC or by any Participant of DTC, (ii) payments or the providing of notice to the Direct Participants, the Indirect Participants or the Beneficial Owners, (iii) the selection by DTC or by any Participant of DTC of any Beneficial Owner to receive payment in the event of a partial redemption of the Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the Bonds.

## **TAX EXEMPTION**

In the opinion of Ropes & Gray LLP, Bond Counsel, under existing law, except as described below, the interest on the Bonds is not included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Code but such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed upon certain corporations. See below and "Appendix D — Proposed Form of Legal Opinion" herein.

The Code imposes certain requirements and restrictions on the use and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become subject to federal income taxation, retroactive to the date of their issuance. On or before delivery of the Bonds to the Underwriter, the City will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

The Code provides certain exceptions to the requirement that the issuer of tax-exempt obligations "rebate" to the federal government certain income derived from investment of the proceeds of such obligations. One such exception applies to issues, all of the gross proceeds of which are spent for governmental purposes of the issuer within a certain specified period after issuance. The City will certify that it expects to qualify for this exception so that sums derived from the investment and reinvestment of proceeds of the Bonds will be exempt from the "rebate" requirements of the Code.

Potential purchasers should be aware, however, of other collateral consequences that may result under the federal tax law for certain holders of the Bonds. Interest on the Bonds is included in the measure of the foreign branch profits tax imposed upon corporations and may be included in passive investment income subject to

federal income taxation under provisions of the Code applicable to certain S corporations. The Code further provides that interest on the Bonds may be includable in the modified adjusted gross income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether a portion of such benefits shall be included in the taxable income of such recipients, and is treated as “disqualified income” for purposes of determining whether an individual is eligible for the earned income tax credit. In addition, certain otherwise deductible underwriting losses of property and casualty insurance companies will be reduced by a portion of the interest received by such companies on the Bonds, and no deduction will be allowed for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of such institution’s interest expense that is allocated to interest on the Bonds.

For federal tax purposes, interest includes original issue discount, which with respect to a Bond is equal to the excess, if any, of the stated redemption price at maturity of such Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all Bonds with the same maturity was sold. Original issue discount accrues actuarially over the term of a Bond. Holders should consult their own tax advisers with respect to the computations of original issue discount on such accruals of interest during the period in which any such Bond is held.

The excess, if any, of the tax basis of the Bonds to a purchaser (other than the purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is “bond premium.” For federal income tax purposes, bond premium is amortized over the term of such Bonds, is not deductible and reduces the purchaser’s adjusted tax basis. Bond purchasers should consult their tax advisers with respect to the tax consequences of bond premium.

In the further opinion of Bond Counsel, under existing New Hampshire law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends.

On the date of delivery of the Bonds, the Underwriter will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix D – “Proposed Form of Legal Opinion.”

#### **VERIFICATION AGENT**

Prior to the delivery of the Bonds, Chris D. Berens, CPA, P.C. will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them relating to the adequacy of the maturing principal amounts of the Escrow Securities held by the paying agent for the bonds being refunded (the “Refunded Bonds”) and interest to be earned thereon to pay all the principal, redemption premium, and interest on the Refunded Bonds. Chris D. Berens, CPA, P.C. will express no opinion on the assumptions provided to them, nor as of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

#### **RATINGS**

Fitch Ratings (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), have assigned the ratings of “AA+,” “Aa2,” and “AA+,” respectively, to the Bonds.

Such ratings reflect only the views of the respective rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agency. There can be no assurance given that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in their judgment, the circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the liquidity and market price of the Bonds.

## **UNDERWRITING**

A.G. Edwards & Sons, Inc. (the “Underwriter”), has agreed, subject to certain conditions, to purchase the Bonds from the City pursuant to a Bond Purchase Agreement at a price equal to the principal amount of such Bonds, plus net original issue premium of \$955,994.70, and less an underwriting discount of \$66,857.60. The Underwriter is committed to take and pay for all of the Bonds it has agreed to underwrite if any are taken. The Bonds are being offered for sale at the prices set forth on the cover page of this Official Statement, which prices may be changed by the Underwriter from time to time without notice. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the offering prices stated on the cover page hereof. After the initial public offering, the public offering prices may be changed from time to time by the Underwriter.

No guarantee can be made that a secondary market for the Bonds will develop or be maintained by the Underwriter or others.

## **LEGAL MATTERS**

Legal matters incident to the authorization and sale of the Bonds are subject to the approval of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel. The opinion of Bond Counsel will be dated as of the date of the issuance of the Bonds and will speak only as of that date. A form of the approving opinion of Bond Counsel is set forth in Appendix D hereto. Certain legal matters will be passed on for the Underwriter by its counsel, Palmer & Dodge LLP, Boston, Massachusetts.

## **CONTINUING DISCLOSURE**

In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the SEC, the City will enter into a Continuing Disclosure Certificate with respect to the Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form attached as Appendix E to this Official Statement (the “Continuing Disclosure Certificate”), pursuant to which the City will agree to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds, and (iii) timely notice of a failure by the City to provide the required annual financial information on or before the date specified in the Continuing Disclosure Certificate. The Underwriter’s obligation to purchase the Bonds shall be conditioned upon their receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Certificate. The City has previously entered into undertakings with respect to other debt of the City and to date has complied in all material respects with such undertakings, except that the City did not file any annual financial information or operating data concerning the City’s Department of Aviation for fiscal year 1998 and did not file the Manchester Department of Aviation’s financial information or operating data for fiscal year 1999 in a timely manner.

The City Finance Officer, or such official’s designee from time to time, shall be the contact person on behalf of the City from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is: Kevin A. Clougherty, Finance Officer, Finance Department, One City Hall Plaza, Manchester, New Hampshire, 03101, telephone (603) 624-6460.

## **FINANCIAL ADVISOR**

Public Financial Management, Inc., Boston, Massachusetts has served as Financial Advisor to the City in connection with the issuance of the Bonds.

## **INDEPENDENT ACCOUNTANTS**

The financial statements of the City for the year ended June 30, 2003 are included in Appendix C of this Official Statement and have been audited by McGladrey & Pullen, LLP, independent accountants, as stated in

their report appearing in Appendix C. McGladrey & Pullen, LLP has consented to the inclusion of their report on such financial statements in this Official Statement.

### **LITIGATION**

In the opinion of the City Solicitor, there is no pending litigation likely to result, either individually or in the aggregate, in final judgment against the City that would materially affect its financial position.

CITY OF MANCHESTER, NEW HAMPSHIRE

By: /s/ Robert A. Baines  
Mayor

By: /s/ Kevin A. Clougherty  
City Finance Officer

August 25, 2004

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**CITY OF MANCHESTER – SELECTED ECONOMIC INDICATORS  
AND OTHER INFORMATION**

**Labor Force and Employment and Unemployment Rates**

The following table sets forth the City's average labor force and unemployment rates for calendar years 1996 through June, 2004, as well as the unemployment rates for New Hampshire, New England and the United States as a whole for the same period.

City		Unemployment Rate			
<u>Year</u>	<u>Labor Force</u>	<u>Manchester</u>	<u>New Hampshire</u>	<u>New England</u>	<u>United States</u>
2004 <sup>(1)</sup>	64,000	4.5%	3.9%	4.9%	5.8%
2003	62,710	4.3	4.3	5.2	6.3
2002	61,150	4.8	4.7	4.6	5.7
2001	61,780	3.3	3.2	3.7	4.7
2000	59,150	2.5	2.8	2.8	4.0
1999	57,100	2.5	2.7	3.3	4.0
1998	55,450	2.7	2.9	3.5	4.5
1997	55,390	2.9	3.1	4.4	4.9
1996	53,180	3.8	4.2	4.8	5.4

(1) Labor force and unemployment rate as of June, 2004.

SOURCE: N.H. Department of Employment Security and U.S. Bureau of Labor Statistics. Data based upon place of residence.

## Employment

The City has a diversified industrial economy: in 2002, some 57,687 people were employed by private industry in 3,224 establishments with a collective payroll of approximately \$2.1 billion. The following tables list the major categories of payroll and employment for the City for calendar years 1998 through 2003, the most recent year for which data is available, with a more detailed analysis for 2003.

### Employment and Payrolls

	<u>Number of Firms</u>	<u>Payroll</u>	<u>Average Employment</u>
2003			
Manufacturing	N/A	N/A	N/A
Non-Manufacturing	N/A	N/A	N/A
Total			
2002			
Manufacturing	181	\$ 316,053,916	7,492
Non-Manufacturing	<u>3,043</u>	<u>1,874,884,499</u>	<u>50,186</u>
Total	<u>3,224</u>	<u>\$2,190,938,415</u>	<u>57,678</u>
2001			
Manufacturing	190	\$ 363,230,113	8,712
Non-Manufacturing	<u>3,023</u>	<u>1,794,861,602</u>	<u>49,803</u>
Total	<u>3,213</u>	<u>\$2,158,091,715</u>	<u>58,515</u>
2000			
Manufacturing	185	\$ 469,234,865	10,323
Non-Manufacturing	<u>3,090</u>	<u>1,692,661,770</u>	<u>48,882</u>
Total	<u>3,275</u>	<u>\$2,161,896,625</u>	<u>59,205</u>
1999			
Manufacturing	181	\$ 402,964,323	10,053
Non-Manufacturing	<u>3,071</u>	<u>1,520,608,879</u>	<u>46,886</u>
Total	<u>3,252</u>	<u>\$1,923,573,202</u>	<u>56,939</u>
1998			
Manufacturing	182	\$ 379,490,161	10,310
Non-Manufacturing	<u>2,783</u>	<u>1,375,064,185</u>	<u>44,577</u>
Total	<u>2,965</u>	<u>\$1,754,654,346</u>	<u>54,887</u>

SOURCE: New Hampshire Department of Employment Security. Data based upon place of employment.

## Composition of Employment in 2003

	<u>Number of Firms</u>	<u>Average Annual Employment</u>	<u>Average Weekly Wages</u>
Manufacturing	181	7,492	\$ 811
Construction & Mining*	243	2,217	848
Transportation	73	1,597	582
Trade	768	11,458	637
Finance, Insurance, Real Estate	336	4,567	1,055
Services & Other	<u>1,623</u>	<u>30,347</u>	<u>681</u>
TOTAL NON-MANUFACTURING**	<u>3,043</u>	<u>50,186</u>	
GRAND TOTALS	<u>3,224</u>	<u>57,678</u>	

1998 Mining & Utilities: The State of NH will not release wage information about an industry if there are fewer than three firms in a given area.

\*\* This does not include Federal State, or Local Government.

SOURCE: Economic & Labor Market Information Bureau of NH Employment Security March 10, 2004.

## Largest Employers

The following table lists the largest employers in the City, exclusive of the City itself, as of June 2002.

<u>Name</u>	<u>Product/Function</u>	<u>Employees</u>
Elliott Hospital	Health Care	2,145
Verizon	Utility	2,100
Catholic Medical Center	Health Care	1,400
PSNH	Utility	1,250
Citizens Bank	Banking	1,200
Bank of New Hampshire	Banking	1,080
Anthem Blue Cross Blue Shield of NH	Insurance	801
Shop N' Save	Supermarket	725
Osram Sylvania	Electronics	675
Freudenberg NOK	Electronics	550

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SOURCE: Economic & Labor Market Information Bureau, NH Employment Security



## Building Permits

The following table sets forth the number of building permits issued by the City for public and private construction projects and their estimated construction costs for fiscal years 1998 through 2004.

Year	New Construction		Additions and Alterations		Permits Issued	Total Estimated Cost
	<u>Residential</u>	<u>Non-Residential</u>	<u>Residential<sup>(1)</sup></u>	<u>Non-Residential</u>		
2004	\$55,887,020	\$ 28,272,928	\$27,333,167	\$51,002,244	2,673	\$ 162,495,359
2003	79,676,760 <sup>(2)</sup>	16,374,751	17,999,388	40,497,744	2,442	154,548,643
2002	28,908,454	9,314,320	14,674,054	36,487,879	2,112	89,384,707
2001	27,493,997	49,137,554 <sup>(3)</sup>	7,101,982	65,323,140	1,593	149,056,673
2000	27,064,990	14,896,016	12,894,628	46,866,829	1,792	101,722,463
1999	16,466,026	17,562,107	7,685,376	34,982,096	2,724	76,696,605
1998	26,496,083	51,086,703	7,880,835	26,708,495	2,072	112,172,116

(1) Includes Residential Accessory Buildings

(2) Total reflects Hackett Hill Development Corp., ten new apartment buildings

(3) A large percentage of the increase is attributable to the construction of the Manchester Civic Center.

SOURCE: City Building Department

## Income and Education Levels

The following table compares the median age, median family income, per capita income, and the median level of education for Manchester, the State of New Hampshire, and the United States. The information presented includes the latest year for which such information is available.

	<u>Manchester</u>	<u>New Hampshire</u>	<u>U.S.</u>
Median Age:			
2000	35.9	37.4	35.4
1990	32.0	32.8	N/A
1980	32.7	30.1	30.0
1970	30.5	28.0	28.1
Median Family Income:			
2000	\$51,949	\$58,324	\$49,494
1990	38,812	41,628	30,056
1980	19,223	19,724	19,908
1970	9,489	9,698	9,867
Per Capita Income:			
2000	\$24,663	\$24,273	\$21,684
1989	15,111	15,959	14,420
1987	13,069	13,529	11,923
1979	6,841	6,966	7,295

## Population

Based on the 2000 population estimates, population density in the City is 3,156 persons per square mile. The following table sets forth the estimated population of the City for each of the following years.

<u>1980</u>	<u>1990</u>	<u>1996 (1)</u>	<u>2000</u>	<u>2004(1)</u>
90,936	99,567	102,675	107,006	108,150

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Population, years 1980, 1990 & 2000.

(1) Office of State Planning.

## Manchester Metropolitan Area

The Manchester Metropolitan Area (10-mile radius), located in the heart of the Merrimack Valley in south central New Hampshire is the industrial, wholesale, retail and business service center of New Hampshire and much of northern New England. It comprises seven towns in Hillsborough County, six in Rockingham County and five in Merrimack County, and accounts for over 25% of the population of the State.

Manchester is the largest city in New Hampshire and the core city in one of the three federally designated PMSA's in the State. According to US Census figures, the Manchester Metropolitan Area, with 19 communities in three counties, contained 162,094 persons (22.0% of the State total of 737,681) in 1970, while the 2001 figures show a 31-year Metropolitan Area increase of 94.9% to 315,910 (25.1% of the State total of 1,259,000).

Year	MANCHESTER AREA POPULATION					
	Manchester City		Manchester Metro Area*		Manchester Trade Area**	
1970	87,754		162,094		335,707	
		+3.6%		+30.1%		+29.1%
1980	90,936		212,246		433,543	
		+9.5%		+26.5%		+26.4%
1990	99,332		268,564		548,037	
		+7.7%		+15.5%		+13.8%
2000	107,006		310,304		628,386	
		+10.9%		+14.2%		+13.2%
2010(proj)	118,630		354,280		711,170	
		+7.2%		+10.5%		+10.0%
2020 (proj)	127,140		391,480		782,190	

\* MANCHESTER METRO AREA (10-mile radius); Manchester, Allentown, Amherst, Auburn, Bedford, Bow, Candia, Chester Derry, Dunbarton, Goffstown, Hooksett, Litchfield, Londonderry, Merrimack, New Boston, Pembroke, Raymond, and Weare.

\*\* MANCHESTER TRADE AREA (20-mile radius); METRO AREA and Atkinson, Brentwood, Brookline, Chichester, Concord, Danville, Deerfield, Deering, Epping, Epsom, Francetown, Freemont, Greenfield, Hampstead, Henniker, Hollis, Hopkinton, Hudson, Kingston, Loudon, Lyndeborough, Milford, Mont Vernon, Nashua, Northwood, Nottingham, Pelham, Plaistow, Salem, Sandown, Wilton, and Windham.

SOURCES: Population – US Census, 1970, 1980, 1990 and 2000.

Population Estimates and Projections – NH Office of State Planning.

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## CITY OF MANCHESTER SELECTED FINANCIAL INFORMATION

## Debt Summary

The following table sets forth the outstanding debt and authorized and unissued debt of the City as of June 30, 2004. The amounts shown below do not include any authorizations for refunding debt.

<b>GENERAL OBLIGATION DEBT</b>	<b>OUTSTANDING DEBT</b>		Total Outstanding and Authorized Unissued Debt
	Debt Outstanding	Authorized and Unissued	
School	\$ 43,103,482	\$ 4,400,000	\$ 47,503,482
Parking Facilities	2,482,611		2,482,611
Baseball Stadium*	27,016,700		27,016,700
Other	68,155,821	720,000	68,875,821
Urban Renewal	2,839,921		2,839,921
Fiscal Year Conversion	2,926,872		2,926,872
Sanitary Landfill Closure	14,460,027	428,834	14,888,861
Pension Obligation Bonds	16,606,657		16,606,657
Subtotal	177,592,090	5,548,834	183,140,924
<b>Self-Supporting</b>			
Recreation	\$ 2,489,990	\$ 2,300,000	\$ 4,789,990
Sewer	32,341,217	30,297,252	62,638,469
Water	11,543,774	461,180	12,004,954
HUD Section 108 Grant Loan	6,620,000		6,620,000
Subtotal	52,994,981	33,058,432	86,053,413
<b>SUBJECT TO APPROPRIATION</b>			
<b>BONDS</b>			
School Facilities Revenue Bonds	\$ 101,410,000		\$ 101,410,000
Subtotal	101,410,000	-	101,410,000
<b>REVENUE BONDS</b>			
Water	\$ 38,345,000	\$ 5,655,000	\$ 44,000,000
Airport	271,385,000		271,385,000
Subtotal	309,730,000	5,655,000	315,385,000
<b>GRAND TOTALS</b>	<b>\$ 641,727,072</b>	<b>\$ 44,262,266</b>	<b>\$ 685,989,338</b>

\* The City has entered into agreements with the Stadium Developer pursuant to which the Stadium Developer has agreed to pay the City \$750,000 annually plus additional annual payments equal to the actual debt service (principal and interest) on \$2.5 million of the bonds.

## Debt Service Requirements

The following table sets forth the required principal and interest payments on general obligation bonds of the City, including general obligation bonds relating to the Manchester School District and the Bonds, but excluding the Refunded Bonds, as of August 25, 2004.

Fiscal Year	General Obligation Debt (1)		Debt Service
	Principal (2)	Interest (2)	
2005	\$ 11,625,832	\$ 10,085,581	\$ 21,711,413
2006	14,092,492	7,197,024	21,289,516
2007	10,602,736	6,688,222	17,290,958
2008	11,766,674	6,252,746	18,019,420
2009	11,812,511	5,769,981	17,582,492
2010	9,991,578	5,284,355	15,275,933
2011	10,076,463	4,874,618	14,951,081
2012	8,220,082	4,440,583	12,660,665
2013	9,377,674	4,032,921	13,410,595
2014	9,244,923	3,614,273	12,859,196
2015	8,127,415	3,219,412	11,346,828
2016	8,078,425	2,823,833	10,902,258
2017	7,222,880	2,438,742	9,661,622
2018	8,165,072	2,074,058	10,239,130
2019	6,165,958	1,683,629	7,849,587
2020	5,072,891	1,387,374	6,460,265
2021	3,889,047	1,162,070	5,051,117
2021-2031	20,376,267	3,684,426	24,060,693
	<u>\$ 173,908,919</u>	<u>\$ 76,713,848</u>	<u>\$ 250,622,767</u>

- (1) Does not include Enterprise Fund GO debt, nor Airport Revenue Bond issuances of 1998, 2000, Refunding 2001 and 2002, Water Revenue Bond Series 2003 and School Facilities Revenue Bond Series 2003.
- (2) "Principal" includes present value of capital appreciation bonds. "Interest" includes accreted interest on the capital appreciation bonds, all which is deemed paid at maturity.

## Debt Ratios

The following table sets forth the ratio of the City's general obligation tax-supported bonded debt to equalized assessed valuation and per capita debt ratios for the end of the five most recent fiscal years. The table below shows the principal amount of such bonds of the City and excludes outstanding revenue bonds and water and wastewater treatment debt, which are self-supporting. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in part (i.e., school) by non-tax revenues. See "Direct Debt Summary," above.

<u>Fiscal Year End</u>	<u>Net G.O. Bonded Debt Outstanding</u>	<u>Population (1)</u>	<u>Equalized Assessed Valuation (2)</u>	<u>Net Bonded Debt Per Capita</u>	<u>Net Bonded Debt as % of Equalized Assessed Valuation</u>
2004	\$177,592,090	108,150	(3)	\$1,642	(3)
2003	118,911,694	108,150	8,023,599,321	1,100	1.48 %
2002	135,787,558	108,078	6,839,606,796	1,256	1.99
2001	110,870,443	107,297	4,968,369,501	1,033	2.23
2000	127,394,568	106,180	3,866,053,601	1,200	3.30

- (1) Based on the population estimate updated annually by the Office of State Planning.
- (2) Equalized assessed valuations are determined annually by the State Department of Revenue Administration.
- (3) Not available until May of 2005.

## Assessed Valuations

In 2000 the City began the process of a City-wide revaluation. The revaluation was as of April 1, 2001 and was used to assess property taxes beginning with fiscal year 2002. As part of the Supreme Court decision regarding school funding, cities and towns in New Hampshire are required to undertake revaluations every five years. For more detailed information about the Supreme Court decision and education funding in New Hampshire, see "Appendix B – City of Manchester Selected Financial Information – Education Funding," below. The City expects that the next revaluation will be effective for April 1, 2006. The following table sets forth the trend in the City's assessed valuations and statutory exemptions, as of April 1, for each of the last five fiscal years.

<u>Fiscal Year</u>	<u>Real Estate and Personal Property Valuation</u>	<u>Total Statutory Exemptions (1)</u>	<u>Amount of Net Assessed Valuation</u>	<u>Increase/(Decrease) over Previous Years</u>	<u>% Increase/ (Decrease) Over Previous Year</u>
2004	\$ 5,321,384,900	\$138,579,800	\$5,182,805,100	\$ 51,731,696	1.01
2003	5,264,545,804	133,472,400	5,131,073,404	(23,987,062)	(0.47)
2002	5,268,212,966	113,152,500	5,155,060,466	1,323,256,216	34.53
2001	3,896,678,500	64,874,250	3,831,804,250	34,072,400	0.90
2000	3,862,341,000	64,609,150	3,797,731,850	57,849,600	1.55

- (1) Exemptions for the blind and elderly.

## Equalized Assessed Valuations

The following table lists the City's total net assessed valuations, the State equalized valuations, the ratio of assessed valuation to equalized valuation, the tax rate per \$1,000 assessed valuation, and the estimated full value tax rate, as of April 1, for each of the last five fiscal years.

Fiscal Year	Total Net Assessed Valuation	Equalized Assessed Valuation	Ratio of Assessed Valuation to Equalized Valuation	Tax Rate Per \$1,000 Assessed Valuation	Estimated Full Value Tax Rate(1)
2004	\$ 5,182,805,100	(2)	(2)	\$ 26.40	(2)
2003	\$ 5,131,073,404			\$ 25.68	
2002	5,155,060,466	\$ 6,839,606,796	75.4	23.82	\$17.95
2001	3,831,804,250	4,968,369,501	77.1	30.68	\$23.66
2000	3,797,731,850	3,866,053,601	98.2	30.49	\$29.95

(1) Estimated full value as determined annually by State Department of Revenue Administration.

(2) Not available until May of 2005.

## Largest Taxpayers

The following table lists the ten largest taxpayers in the City for tax year 2004. The ten largest taxpayers in the City for tax year 2004 were businesses representing a diverse array of industries and made up only 5.94% of the City's total assessed valuation.

Name	Nature of Business	Fiscal 2004 Assessed Valuation	% of Total Assessed Valuation
MNH L.L.C. (Mall of NH)	Retail Mall	\$ 83,500,000	1.58 %
Public Service Company of New Hampshire	Utility	66,612,000	1.26
Energy North Natural Gas Inc.	Utility	30,011,700	0.57
Waterford Place, LLC	Apartments	26,159,300	0.50
Stone Ends Apartments, LLC	Apartments	23,530,200	0.45
IPC Office Properties, LLC	Office Buildings	22,342,000	0.42
Manchester Hill Vistas, Inc	Office	16,862,600	0.32
Cotter Company	Condominiums	14,799,900	0.28
BCIA New England Holdings	Warehouse/Distributor	14,764,300	0.28
Portnoy, Barry M. Tee	Office Building/Utility	14,665,000	0.26
	Medical Insurance		
	Total	\$ 313,247,000	5.94 %

## Education Funding

On December 17, 1997, the New Hampshire Supreme Court ruled that the State's system of financing elementary and secondary public education primarily through local property taxes was unconstitutional. In its decision, the State Supreme Court noted that several financing models could be fashioned to fund public education, but that it was for the Legislature to select one that passes constitutional muster. The State Supreme Court did not remand the matter for consideration of remedies, but instead allowed the existing funding mechanism to stay in effect through March 31, 1999, and stayed all further proceedings until the end of the 1999 legislative session to permit the Legislature to address the issues raised in the case.

Chapter 17 of the Laws of 1999 ("Chapter 17") became effective in April 1999. The law includes a definition of "adequate education" for New Hampshire schools and establishes an "Education Trust Fund" and a formula for providing state financial assistance to local school districts. The new law includes a phase-in provision for certain aspects of the Education Trust Fund.

The primary means of State funding for the Education Trust Fund is a uniform statewide property tax under which some of the levies from more prosperous ("property rich" or "donor") communities will be collected by the State and redistributed to less affluent ("property poor" or "recipient") school districts. Chapter 17 established a uniform tax rate of \$6.60 per thousand (which subsequent legislation has lowered to \$3.33 per thousand) of total equalized value (not including utility property or local exemptions). The new state aid property tax will be assessed and collected in virtually the same manner in which property taxes have been administered in the past with one primary exception, donor communities will be required to send amounts in excess of what is required locally for an adequate education to the State for redistribution to recipient districts. The City is a recipient district.

In addition to the property tax provisions, the State raised levies on its Business Profits Tax 1%, Business Enterprise Tax .25%, Real Estate Transfer Tax 50%, and added rental cars to the items covered on its Meals and Rooms Tax. The State also earmarked revenue from the State's share of the recent multi-state tobacco settlement, as well as sweepstakes earnings and reserve funds of \$62 million already committed to assist property poor communities. Certain provisions in the legislation require further action by the state legislature in order to be implemented and the use of the tobacco settlement funds requires that the settlement attain final approval. In fiscal year 2004, the City received approximately \$45 million in state assistance for education as a result of the enactment of Chapter 17, and expects to receive approximately \$41 million in fiscal year 2005.

The legislation also creates two commissions: the Adequate Education Financing Commission and the Tax Equity and Efficiency Commission to make further recommendations as to the funding of education expenditures. The legislation further provides that if the voters of the state adopt an amendment to the state Constitution which relates to the role of the legislature in determining the nature of and means for funding public education, the provisions of the legislation shall, with certain limited exceptions, be without effect as of the July 1 following such adoption and the provisions of laws affected by the legislation shall be considered reenacted as they were on the day before the legislation became effective. The next opportunity for adoption of such an amendment is in November 2004.

The legislation in no way limits the amounts a municipality may appropriate to fund education above its per pupil adequate education cost and in no way limits the additional amount of taxes that can be levied to raise such additional appropriations or to pay debt issued for school purposes.

In June, 2004, the New Hampshire Legislature enacted Chapter 200 of the Laws of 2004 ("Chapter 200") for the purpose of making technical corrections to the education funding formula. Among other things, Chapter 200 revised the formula for determining adequate education costs and adequate education grants in a manner that will cause the City to receive less money from the State than would have been the case under the prior law. As a result of this action, the City and the City of Rochester, New Hampshire filed a Petition for Declaratory Judgment in the Merrimack County Superior Court seeking a declaration that Chapter 200 is unconstitutional and requesting that the court enjoin the distribution of education funds pursuant to Chapter 200. On August 12, 2004, the court denied the Petition and denied the request for injunctive relief. The City expects to file a motion for reconsideration with the court.



### *Manchester School District*

Prior to May 24, 1999 the District was administered as a department of the City, with departments of the City administering certain school district functions, such as Finance and Human Resources, at the direction of the school district. On or about December 9, 1998 the District filed a Petition for Declaratory Judgment in the Hillsborough County Superior Court, Northern District. City of Manchester School District and SAU #37 v. City of Manchester, Hillsborough County Superior Court, Northern District. Docket number 98-E-458. The Petition, among other requests for relief, sought a declaration that the District was not a department of the City. The court issued an order on May 24, 1999 in which it ruled that the District was not a department of the City. The court's order was not appealed. In response to the court's order the City's Board of Mayor and Aldermen determined that an amendment to the City Charter was desirable. A proposed amendment to the Charter was drafted that merged the District into the municipal corporation with the District to be administered by the School Committee as a department of the City.

On or about March 29, 2001 the District filed a Petition for Declaratory Judgment, Permanent Injunctive Relief and Damages. The City of Manchester School District and School Administrative Unit #37 v. The City of Manchester, Hillsborough County Superior Court, Northern District, Docket No. 01-E-149. The Petition requested that the court issue rulings on various fiscal practices between the City and the District. The petition was amended to include a new count regarding proposed amendment to the City Charter and to request that the court rule that the District could not be made a department of the City by Charter amendment.

The proposed Charter amendment was sent to referendum and on November 6, 2001 the voters of the City voted to adopt the charter amendment.

On April 11, 2003 the court issued an order ruling that the City could not make the District a department of the City by Charter amendment. The City appealed the court's order to the New Hampshire Supreme Court, which accepted the appeal on June 30, 2003. The New Hampshire Supreme Court agreed with the Lower Court ruling in March 2004.

In 2003, the State legislature enacted special legislation concerning the City and the District which provides that the City may incorporate the District as a department of the City and that the Mayor shall have control over the form and procedures for preparation and adoption of the school department budget. The special legislation took effect upon enactment. At the present time, the City does not intend to incorporate the District as a department of the City.

Neither the adoption of Chapter 17 nor the local court ruling is expected to substantially change the administrative operation of the Manchester School District.

### **State Retirement System**

The City contributes to the New Hampshire Retirement System (the "System" or "NHRS"), a cost sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The System provides retirement and disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A41-a of New Hampshire Law assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report, which can be obtained through the New Hampshire Retirement System at 4 Chennel Drive, Concord, New Hampshire 03301-8509.

The City's contributions to the System, consisting of firefighters and police officers, for the fiscal year ended June 30, 2004 was \$2,760,949 and was equal to the required contributions. The City has recognized both revenue and expenditures of \$1,094,057 on behalf of contributions made by the State of New Hampshire to the NHRS.

	<u>2003/2004</u>			<u>2002/2003</u>		
	<u>Employees</u>	<u>City</u>	<u>State</u>	<u>Employees</u>	<u>City</u>	<u>State</u>
Police Officers	9.30%	7.87%	4.24%	9.30%	5.33%	2.87%
Firefighters	9.30	13.44	4.24	9.30	6.61	3.56

## **City Retirement System**

### *City Plans*

All eligible City employees, except teachers, police officers and fire fighters who are covered under the NHRS, participate in one of the City's two retirement systems, the "New System" or the "Old System". In addition, police officers and firefighters covered by the NHRS may also qualify for supplementary benefits that are administered and paid for by the City. Detailed information describing the systems and the City's obligations therefor are included in Note 10 to the Financial Statements included in Appendix C.

### *New System*

In 1974, the City established a single-employer public employee retirement system (the "New System") to provide pension benefits to employees other than firefighters, police officers, teachers and employees covered under the "Old System" described below. All covered employees hired after January 1, 1974 are required to participate in the New System as a condition of employment. Employees are 100% vested after five years of service.

At December 31, 2002, the City's accrued pension obligation was estimated to exceed the pension assets under the New System by \$16,364,857 under the actuarial value. December 31, 2003 results are not yet available.

The City's annual contributions to the New System for the current and last five fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2004	N/A
2003	\$3,305,451
2002	1,794,576
2001	1,117,163
2000	713,685

### *Old System*

Prior to January 1, 1974, all eligible City employees participated in the "Old System". All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the New System. The Old System was replaced by the New System and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors.

The City funded costs of this plan during fiscal year 2004. At June 30, 2004 the Old System membership consisted of:

Members currently receiving benefits	127
Active Vested Members	<u>21</u>
Total Members	148

At July 1, 2003, the City's accrued pension obligation was estimated to exceed the pension assets under the Old System by \$1,788,271 under the actuarial value.

The City's annual required contribution for the Old System for the current and last five fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2004	N/A
2003	\$ 87,547
2002	2,175,245
2001	2,196,055
2000	2,158,104

#### *NHRS Related Supplementary Benefits Plan*

The City pays supplementary benefits of up to 50 percent of the last annual wage for any City employee who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit equal to at least 50% of the last annual wage. The City funded the cost of this plan during fiscal year 2002. The unfunded pension obligation related to this benefit at June 30, 2003 was \$43,011.

#### **Employee Relations**

Pursuant to New Hampshire RSA 273-A, all public employees in the State of New Hampshire have the right to organize and to bargain collectively with their public employers on matters of wages, hours, and other conditions of employment other than managerial policy. The City has approximately 1,272 employees, of whom approximately 67% are bargaining unit members.

The following identifies Manchester's municipal labor organizations, their affiliations, the length of each contract and the date on which the contract expired or expires.

<u>Organization</u>	<u>Affiliation</u>	<u>Length of Contract</u>	<u>Expiration of Contract</u>
* Airport	Teamsters	3.0 Years	06/30/07
Public Works, Parks and Sanitation	AFSCME 298	3.0 Years	06/30/07
Police Department	MAPS	3.0 Years	06/30/07
Police Department	MPPA	3.0 Years	06/30/07
Water Works	USWA	3.0 Years	06/30/04
Fire Department	IAFF	2.0 Years	06/30/04
* Police Department Support Staff	Teamsters	3.0 Years	06/30/07
Fire Department	MAFS	3.0 Years	06/30/07
Health Department	AFSCME	3.0 Years	06/30/07

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AFSCME: American Federation of State, County, and Municipal Employees  
 MAPS: Manchester Association of Police Supervisors  
 MPPA: Manchester Association of Police Patrolmen  
 USWA: United Steelworkers of America  
 IAFF: International Association of Firefighters  
 Teamsters: Local 633 of NH  
 MAFS: Manchester Association of Fire Supervisors

\* Pending ratification on 9/7/04.

In addition to the above listed groups that are officially organized, there is one other group that has retained their status as Non-affiliated Employees. The "Non-affiliated" group is comprised of administrative, clerical, and supervisory personnel in most of the departments listed above, as well as the entire segment of employees, which account for the "General Government" grouping.

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**AUDITED FINANCIAL STATEMENTS**  
**FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**



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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen  
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2003 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 96.9% of the revenues and 9% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 80% of the assets and 100% of the additions of the pension trust funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

As described in Note 9 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.



In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction on governmental activities, as described in the preceding paragraph, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 35 through 48 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with "Government Auditing Standards," we have also issued our report dated October 29, 2003 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
October 29, 2003

## **City of Manchester, New Hampshire Management's Discussion and Analysis June 30, 2003**

As management of the City of Manchester, New Hampshire (the "City") we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

### **Financial Highlights**

- ◆ On a government-wide basis, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$383 million. Total net assets for Governmental Activities at fiscal year-end was \$71.7 million and total net assets for Business-Type Activities were \$311.3 million. The unrestricted net assets at June 30, 2003 were \$14 million or 3.7% of the City's total net assets.
- ◆ On a government-wide basis, during the year, the City's net assets increased by \$37.4 million or 10.7%, from \$345.6 million to \$383 million. Net assets increased by \$8.2 million for Governmental Activities and net assets increased by \$29.2 million for Business-Type Activities. Government-wide expenses were \$187.3 million, while revenues were \$224.7 million.
- ◆ At the close of the year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$32.1 million, a decrease of \$11.3 million from the prior fiscal year. Of the total fund balance as of June 30, 2003, there is a deficit of \$5.9 million which represents the combined unreserved deficit in the general fund, special revenue funds, capital projects fund and permanent funds. The combined deficit is due to the capital projects deficit of \$8.4 million.
- ◆ At the end of the current fiscal year, the total fund balance for the general fund alone was \$22.8 million, an increase of \$1 million from the prior fiscal year. Included in the fiscal year 2003 budget was an appropriation of \$1.1 million of unreserved and undesignated fund balance. As of June 30, 2003, \$1.3 million of the total general fund fund balance represents unreserved and undesignated general fund balance. Unreserved general fund fund balance at year-end represents 1.3% of total general fund expenditures and transfers (\$100.8 million).

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information as well as the basic financial statements.

It is important to note that the City implemented the new reporting requirements outlined in GASB 34 effective July 1, 2001. The financial statements, therefore, contained within this report as of June 30, 2003, are the City's second report using the new reporting model. In addition, the City was among one of the first municipalities in the State of New Hampshire required to report under the new model for the fiscal year ended June 30, 2002. As allowed under GASB 34, the City elected not to present all required comparative data for that year of implementation. The report for fiscal year ending June 30, 2003, however, contains all required comparative information with the City itself.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The statement of activities presents information showing how the City's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City of Manchester that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.
- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the Manchester School District ("MSD"), the Manchester Transit Authority ("MTA") and the Manchester Development Corporation ("MDC").

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 50-53 of this report.

## Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three kinds of funds:

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds, as discussed in the Letter of Transmittal, for the City include the United States Department of Housing and Urban Development (DHUD) Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 112-113 and in the combining statement of revenues, expenditures and changes in fund balance on pages 114-115.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 57.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 54-55 of this report.

**Proprietary funds.** The City of Manchester maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Manchester uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City of Manchester. Conversely, both of the remaining funds are combined into a single, aggregated presentation in the proprietary fund

financial statements. Individual fund data for the Recreation Fund and the Aggregation Program is provided on pages 117-119 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 58-60 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 61-62 and 90-91 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63-99 of this report.

The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

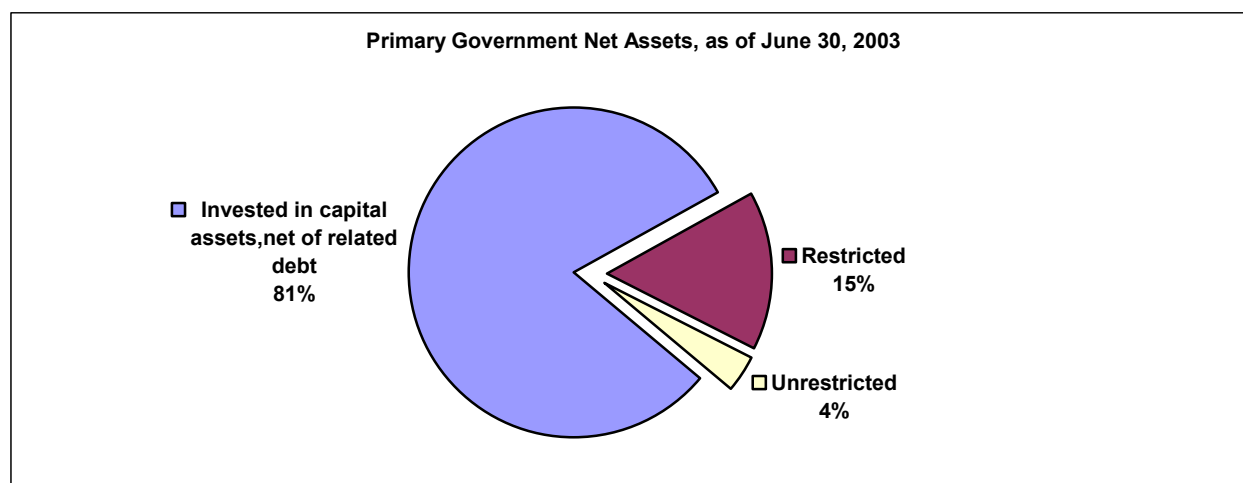
### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$383 and \$345.6 million at June 30, 2003 and 2002, respectively.

Reported for the first time in 2002 were some of the City's infrastructure assets including The Verizon Wireless Arena, roads, sidewalks, bridges, dams, right-of-ways, streetlights, and culverts, all of which have useful lives that range between 20 and 50 years. The City has, in the past, reported only its storm and sanitary sewers with useful lives of 50 years.

**City of Manchester, New Hampshire  
Net Assets (\$000's)  
Primary Government**

	June 30, 2003			June 30, 2002		
	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Current and Other Assets	\$ 116,468	\$ 134,779	\$ 251,247	\$ 118,097	\$ 159,747	\$ 277,844
Non-Current	18,187	8,081	26,268	18,511	9,268	27,779
Capital Assets	173,781	517,958	691,739	173,630	464,750	638,380
<b>Total Assets</b>	<b>308,436</b>	<b>660,818</b>	<b>969,254</b>	<b>310,238</b>	<b>633,765</b>	<b>944,003</b>
Current Liabilities	84,079	23,185	107,264	73,046	20,633	93,679
Long-term liabilities outstanding	152,643	326,332	478,975	173,697	330,999	504,696
<b>Total Liabilities</b>	<b>236,722</b>	<b>349,517</b>	<b>586,239</b>	<b>246,743</b>	<b>351,632</b>	<b>598,375</b>
Net Assets:						
Invested in capital assets, net of related debt	84,480	225,163	309,643	73,140	202,690	275,830
Restricted	17,545	41,479	59,024	17,994	26,540	44,534
Unrestricted	(30,311)	44,659	14,348	(27,639)	52,903	25,264
<b>Total Net Assets</b>	<b>\$ 71,714</b>	<b>\$ 311,301</b>	<b>\$ 383,015</b>	<b>\$ 63,495</b>	<b>\$ 282,133</b>	<b>\$ 345,628</b>



At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

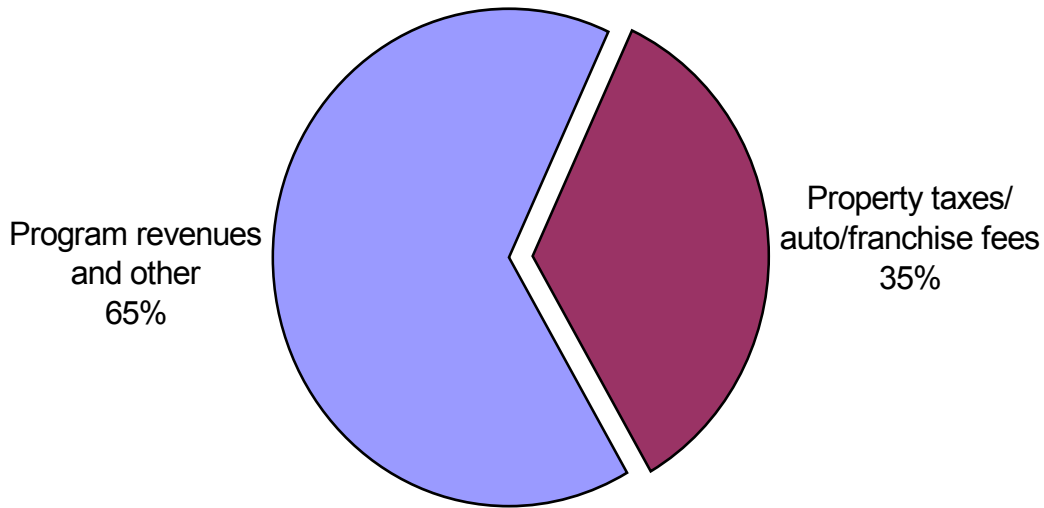
The portion of the City's net assets of \$309.6 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the City's net assets that are restricted, \$59.0 million, represents resources that are subject to external restrictions on how they may be used. Governmental unrestricted net assets (deficit) of (\$30.3) million may not be used to meet the City's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the issuance of the 1993 Fiscal Year Conversion Bonds, which were issued to properly fund revenue and expenditure timing differences, which has an outstanding balance of \$6,199,461 as well as related Capital Appreciation Bonds accrual of \$5,136,395, the Pension Obligation Bond with an outstanding balance of \$17,230,045, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$1,180,555, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$18,106,957, Urban Renewal Related Projects with outstanding balances of \$2,744,909, Revaluation debt with an outstanding balance of \$885,000, long-term debt related to insurance claims with an estimated outstanding balance of \$4,135,101, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$6,328,390 at June 30, 2003.

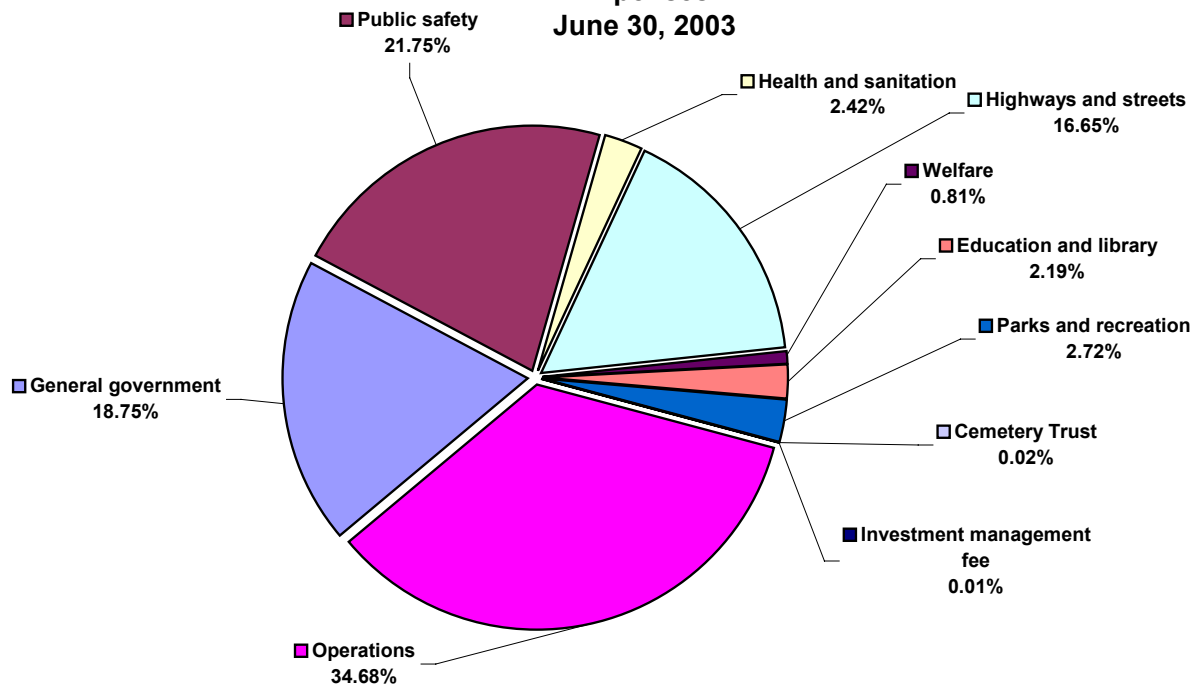
**City of Manchester, New Hampshire**  
**Changes in Net Assets (Deficits) (\$ 000's)**  
**Primary government**

	<b>June 30, 2003</b>			<b>June 30, 2002</b>		
	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 20,866	\$ 65,829	\$ 86,695	\$ 20,154	\$ 61,790	\$ 81,944
Operating grants and contributions	20,824	7,094	27,918	21,491	2,812	24,303
Capital grants and contributions		29,199	29,199	65,739	26,468	92,207
General Revenues:						
Property taxes/auto/franchise fees	73,037		73,037	73,204		73,204
Unrestricted investment earnings	1,088	2,627	3,715	2,122	2,762	4,884
Transfers and other	5,837	(15,361)	(9,524)	2,096	(16,662)	(14,566)
<b>Total revenues</b>	<b>121,652</b>	<b>89,388</b>	<b>211,040</b>	<b>184,806</b>	<b>77,170</b>	<b>261,976</b>
<b>Expenses:</b>						
General government	32,561		32,561	38,574		38,574
Public safety	37,766		37,766	38,059		38,059
Health and sanitation	4,196		4,196	3,527		3,527
Highways and streets	28,905		28,905	30,354		30,354
Welfare	1,405		1,405	2,240		2,240
Education and library	3,817		3,817	4,835		4,835
Parks and recreation	4,724		4,724	835		835
Cemetery Trust	36		36	27		27
Investment management fee	23		23	20		20
Contribution to Pension Trust Fund				449		449
Operations		60,220	60,220	-	47,928	47,928
<b>Total Expenses</b>	<b>113,433</b>	<b>60,220</b>	<b>173,653</b>	<b>118,920</b>	<b>47,928</b>	<b>166,848</b>
Change in net assets	8,219	29,168	37,387	65,886	29,242	95,128
<b>Net assets (deficits)-beginning</b>	<b>63,495</b>	<b>282,133</b>	<b>345,628</b>	<b>(2,391)</b>	<b>252,891</b>	<b>250,500</b>
<b>Net assets (deficits)-ending</b>	<b>\$ 71,714</b>	<b>\$ 311,301</b>	<b>\$ 383,015</b>	<b>\$ 63,495</b>	<b>\$ 282,133</b>	<b>\$ 345,628</b>

### June 30, 2003 Primary government revenues



### City of Manchester Expenses June 30, 2003



Manchester's net assets increased by \$37.4 million during the fiscal year, with net assets of Governmental Activities increasing by \$8.2 million, and net assets of Business-Type Activities increasing by \$29.2 million. The increase in net assets within Business-Type Activities is primarily due to the increases in capital contribution revenues.



## **Governmental Activities**

More than 60% of the governmental funds revenues were derived from property taxes, auto registrations and franchise fees, followed by 17.2% from charges for services, then 17.1% from operating grants and finally, about 5.7% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers.

Major revenue factors included:

- ◆ Investment earnings fell in the general fund from \$1.13 million in the prior fiscal year to \$.74 million for the fiscal year ended June 30, 2003. The reduction in interest and dividend earnings was the result of a slowing economy and the further subsequent reduction in interest rates by the Federal Reserve Bank.

## **Business-Type Activities**

Business-Type activities increased the City's net assets by \$29.2 million.

- ◆ Aviation fund capital contributions amounted to \$25.5 million, an increase from \$23.2 million the previous year .

## **Financial Analysis of the Fund Financial Statements**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$32.06 million, a decrease from \$43.38 million as reported on June 30, 2002. Approximately 28.6% of this total amount constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$14.58 million to cemetery, library and other trust funds; \$3.14 million to liquidate contracts and purchase orders of the prior period; \$2.96 million to self-insured workers' compensation claims reserve; \$1.62 million for advances to an enterprise fund and \$.6 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, undesignated, unreserved fund balance of the general fund was \$1.3 million while the total fund balance reached \$22.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 16.23% of total general fund expenditures, while total fund balance represents 22.62% of that same amount.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the proprietary fund consisting of the Water Works were \$61.75 million, as compared to \$59.03 million in the prior year.

The unrestricted deficit of the Water Works was \$3.95 million. The Water Works experienced operating revenues of \$10.03 million from user fees. There was a total net income for the Water Works of \$50,910 before capital contributions of \$2.67 million. The change in net assets for the fiscal year ended June 30, 2003 was \$2.72 million.

The total assets for EPD decreased by 1.4%, \$2 million, bringing the ending balance to \$146.4 million at June 30, 2003. Total current assets decreased by \$4.5 million, and noncurrent assets by \$1 million, while total capital assets increased by \$3.3 million.

The fiscal year 2003 ending fund balance (fund net assets) remained relatively constant at \$103.5 million. Of this amount, \$71 million is invested in capital assets and \$ .3 million is restricted for equipment replacement.

Unrestricted assets decreased by \$5.4 million and the investment in capital assets increased \$5.6 million for the fiscal year 2003.

Manchester Airport continues to experience real passenger growth in FY2003, approximately 4.4% higher than FY 2002. Operating income fell from \$11,366,591 in FY2002 to \$4,768,019 in FY2003, a decrease of 58%.

### **General Fund Budgetary Highlights**

The City ended Fiscal Year 2003 with an improved balance sheet over FY 2002. The City's "rainy day" revenue stabilization fund increased from \$9,576,915 to \$9,633,624. The City's undesignated fund balance decreased from \$4,683,957 to \$1,304,404, because the City established two new designated fund accounts. The first is the tax rate stabilization account of which the excess of one percent of the FY 2002 tax warrants was transferred into, or \$1,981,568. The second is the special revenue account which accounts for one-time revenues, (i.e., property sales, etc.) which amounts to \$848,437. The City's reserves for workers compensation, health insurance, and general liability had an aggregate increase of \$889,717 or 19% from \$4,665,427 to \$5,555,145.

The difference between the original budget and the final revised budget was \$650,000. Budget cuts adopted during the year are summarized below:

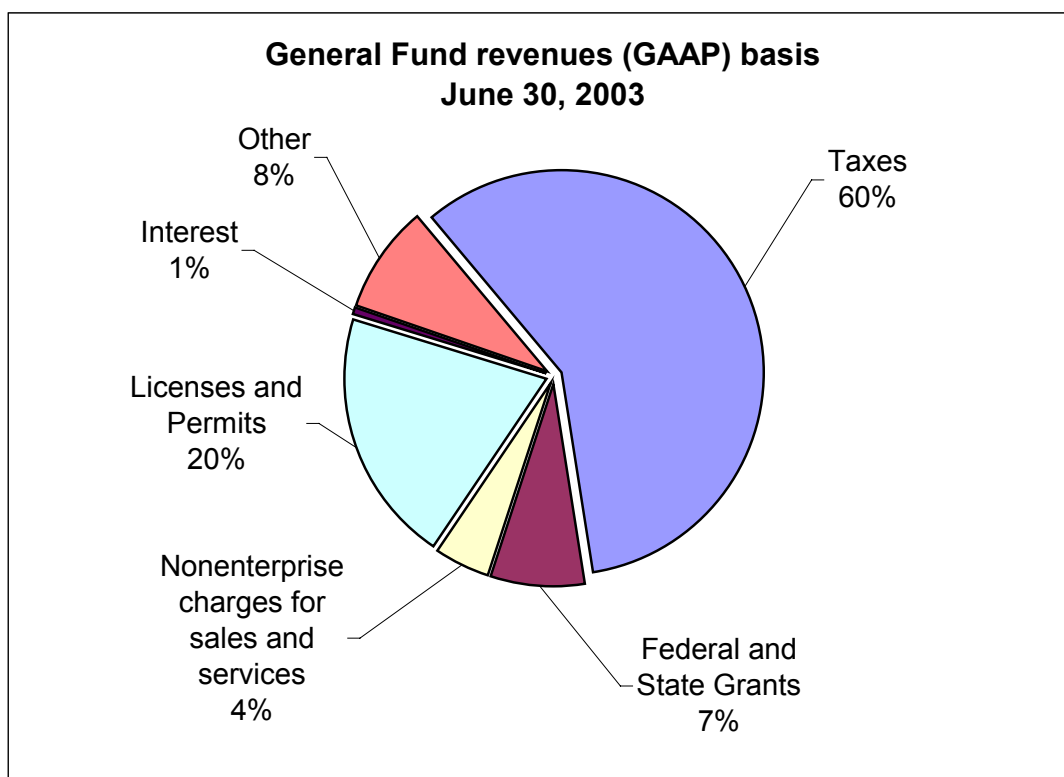
- ◆ The net budget amendment dated September 4, 2002, decreased the general fund departmental expenditures budget by \$650,000.
- ◆ A reduction from original General Government appropriations of \$227,218.
- ◆ A reduction from original Public Safety appropriations of \$120,000.
- ◆ A reduction from original Highways and Streets appropriations of \$240,664.
- ◆ A reduction from original Education and Library appropriations of \$23,069.
- ◆ A reduction from original Parks and Recreations appropriations of \$39,049.

During the year, actual revenues and other financing sources on a budgetary basis were \$99.8 million, which were short of budgetary estimates by \$4 million. Actual tax revenues were under budget by \$1,037,735. Actual intergovernmental revenue was \$74,311 over budgetary estimates. Investment income was \$1,079,889 less than the \$1.8 million that had been budgeted. The budgeted amounts, for investment income was predicated upon historical short-term interest rates that prevailed during the budget preparation period. These assumptions did not anticipate the sharp decline in interest rates during fiscal 2003. Additional shortfalls of \$349,007 resulted in fees and permits. Nonenterprise charges for sales and services were \$154,434 less than budgeted. Other revenues were \$1,457,333 less than budgeted.

Actual expenditures on a budgetary basis and other financing uses totaled \$100.8 million, \$4.1 million less than budgeted. The combined net difference of budgeted revenues and expenses on a budgetary basis resulted in a positive variance of \$94,118. The fiscal year 2003 budget included a planned appropriation of fund balance of \$1.1 million.

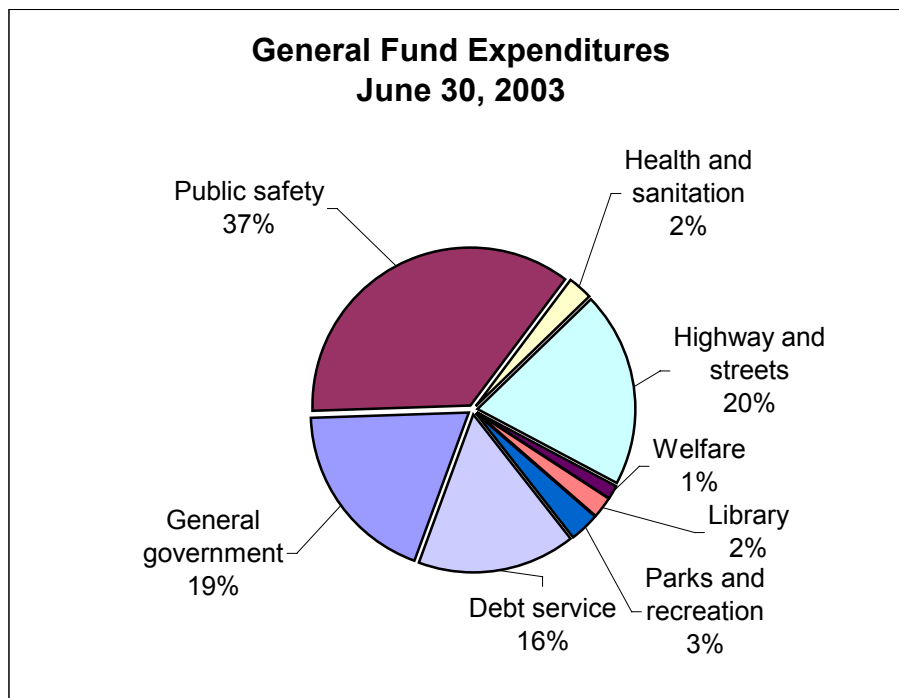
**General Fund Revenues** - The following schedule presents a summary of General Fund revenues (GAAP basis) for the years ended June 30, 2003 and 2002.

<b>Revenues</b>	<b>2003 Amount (000's)</b>	<b>2002 Amount (000's)</b>	<b>Amount of Increase (Decrease) (000's)</b>	<b>Percent of Increase (Decrease)</b>
Taxes	\$ 59,369	\$ 59,021	\$ 348	0.59%
Federal and State Grants	7,549	7,292	257	3.52%
Nonenterprise charges for sales and services	4,492	4,432	60	1.35%
Licenses and Permits	20,522	19,745	777	3.94%
Interest	736	1,133	(397)	-35.04%
Other	8,595	9,120	(525)	-5.76%
<b>Total</b>	<b>\$ 101,263</b>	<b>\$ 100,743</b>	<b>\$ 520</b>	<b>-31.39%</b>



**General Fund Expenditures** - The following schedule presents a summary of General Fund Expenditures (GAAP basis) for the years ended June 30, 2003 and 2002.

<b>Expenditures</b>	<b>2003 Amount (000's)</b>	<b>2002 Amount (000's)</b>	<b>Amount of Increase (Decrease) (000's)</b>	<b>Percent of Increase (Decrease)</b>
General government	\$ 18,658	\$ 18,369	\$ 289	1.57%
Public safety	35,445	34,556	889	2.57%
Health and sanitation	2,463	2,712	(249)	-9.18%
Highway and streets	19,903	20,099	(196)	-0.98%
Welfare	1,352	2,147	(795)	-37.03%
Library	2,146	2,259	(113)	-5.00%
Parks and recreation	2,992	3,034	(42)	-1.38%
Debt service	16,072	14,754	1,318	8.93%
Pension benefit payment		18,660	(18,660)	-100.00%
<b>Total</b>	<b>\$ 99,031</b>	<b>\$ 116,590</b>	<b>\$ (17,559)</b>	<b>-31.39%</b>

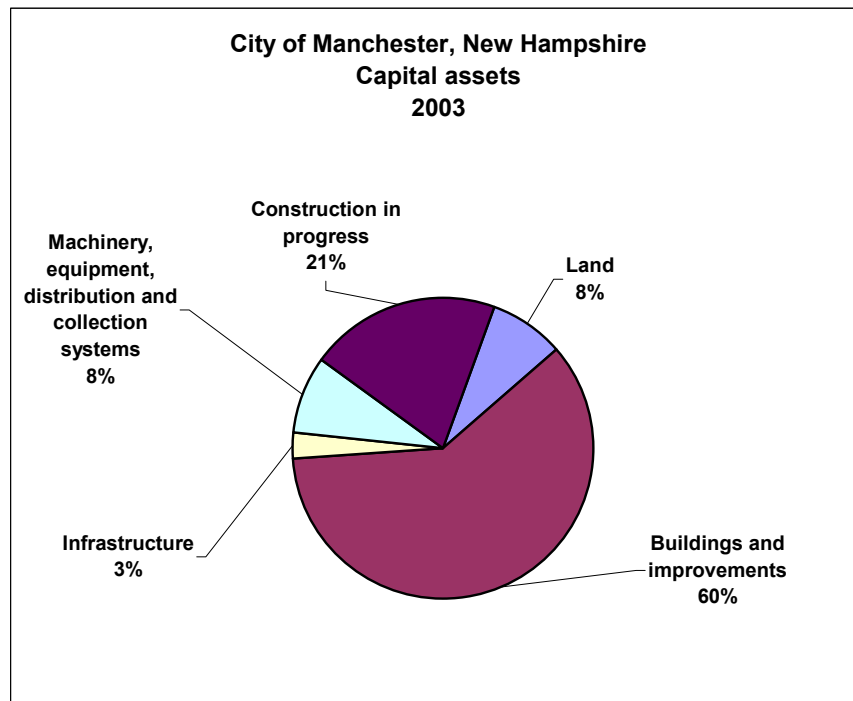


## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2003, amounts to \$691.7 million, net of accumulated depreciation. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$53.3 million or 8.4%.

**City of Manchester, New Hampshire  
Capital Assets (net of depreciation) (000's)  
June 30, 2003 and 2002  
Primary Government**

	2003			2002			
	<b>Govern- mental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>	<b>Govern- mental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>	<b>Change</b>
Land	\$ 18,984	\$ 36,677	\$ 55,661	\$ 18,366	10,377	28,743	\$ 26,918
Buildings and improvements	111,652	306,058	417,710	114,839	235,201	350,040	67,670
Infrastructure	17,914	-	17,914	17,572	-	17,572	342
Machinery, equipment, distribution and collection systems	6,329	51,226	57,555	5,309	52,118	57,427	128
Construction in progress	18,902	123,997	142,899	17,544	167,054	184,598	(41,699)
<b>Total</b>	<b>\$ 173,781</b>	<b>\$ 517,958</b>	<b>\$ 691,739</b>	<b>\$ 173,630</b>	<b>464,750</b>	<b>638,380</b>	<b>\$ 53,359</b>



Major capital asset events during the current fiscal year included the following:

- ◆ Improvements and renovations to school buildings and facilities.
- ◆ Continued rehabilitation of playgrounds and athletic fields.
- ◆ Infrastructure improvements including roads, bridges, and sanitary and sewer projects.
- ◆ Replacement of several pieces of emergency and rescue equipment for the fire department and purchase of police vehicles.
- ◆ Acquisition of parcels for ongoing city development projects.
- ◆ Continued improvements and expansion of the Manchester Airport.

Additional information on the City of Manchester's capital assets can be found in Note 8 on pages 81-84 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt service requirements including interest payments, on bonded debt outstanding, of \$514,630,631. 100% of the general obligation debt is backed by the full faith and credit of the City government.

**City of Manchester, New Hampshire**  
**Outstanding Debt**  
**General Obligation and Revenue Bonds (000's) in thousands**  
**June 30, 2003 and 2002**

	2003			2002		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
General Obligation Bonds	\$ 118,937	\$ 44,030	\$ 162,967	\$ 135,788	\$ 50,927	\$ 186,715
General Obligation Revenue Bonds		271,254	271,254	-	275,329	275,329
Totals	<u>\$ 118,937</u>	<u>\$ 315,284</u>	<u>\$ 434,221</u>	<u>\$ 135,788</u>	<u>\$ 326,256</u>	<u>\$ 462,044</u>

The City was assigned the following credit ratings; FitchRatings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned the ratings of "AA+," "Aa2," and "AA+," respectively, to the Bonds.

The general debt limit of the City is 9.75% of base valuation. The base valuation (\$7,040,701,663) for computing the debt limit is determined by adding the amount of taxable property lost to cities, towns and districts as a result of the enactment of the State Business Profit Tax Law to the "equalize assessed valuation." Not more than 7% of the base valuation may be incurred for school purposes. Water and Sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by legislative acts rather than the general municipal finance statutes are sometimes excluded from a city or town's debt limit. The Total Equalized Valuation figure includes Utility Valuation and Railroad Monies Reimbursements. The total bonded debt for the general government includes the School District portion. As of June 30, 2003, the City recorded long-term debt of \$77.3 million related to Governmental Activities, \$41.7 related to the School District and \$44 million related to Business-Type Activities, well below its statutory debt limit.

Additional information on the City of Manchester's long-term debt can be found in Note 9 on pages 85-89 of this report.

## Economic Factors and Next Year's Budgets and Rates

As of November 2003, the unemployment rate for the Manchester Metropolitan Statistical Area was 4.2%, down from 4.6% in the prior year. Moreover, New Hampshire state government is now reporting serious revenue shortfalls that may translate into reductions in State aid to the City of Manchester and other municipalities in the State.

### Fiscal Year 2004 Budget

The fiscal year 2004 combined General Fund budget for the City and the MSD contains an appropriation increase of 1.31% over the fiscal 2003 budget. Non-property tax revenues are anticipated to remain flat. In the formulation of the fiscal 2004 budget, the Board of Mayor and Aldermen, after consultation with the Department of Finance and the City's assessing department, produced a budget to meet all contracted obligations without layoffs or reductions in City services. The areas of concern in developing the fiscal year 2004 budget were a sluggish economy leading to flat collections of non-property tax revenues, increased costs for retirement fund contributions and health insurance and an obligation to maintain the highest possible level of public safety, health and education. The City believes that it has met all of those concerns in the final adopted fiscal year 2004 budget.

The following table sets forth the City's General Fund operating budgets for fiscal years 2002-2004. Enterprise funds, the County tax, veteran exemptions and the overlay reserve for abatements are excluded from this table.

#### BUDGET TRENDS

	2002		2003		2004	
	Amount	%	Amount	%	Amount	%
Education	\$ 115,808,857	52.9%	\$ 125,898,267	54.7%	\$ 126,575,275	54.3%
General Government	21,582,883	9.9%	19,276,497	8.4%	18,172,463	7.8%
Public Safety	35,675,949	16.3%	37,096,643	16.1%	40,134,677	17.2%
Highway and Streets	21,767,436	9.9%	21,247,079	9.2%	21,520,212	9.2%
Health and Welfare	4,194,300	1.9%	4,438,720	1.9%	4,378,700	1.9%
Culture and Recreation	5,841,695	2.7%	5,748,578	2.5%	5,819,972	2.5%
Economic Development	261,737	0.1%	273,178	0.1%	172,000	0.1%
Motorized Equipment	382,500	0.2%	50,000	0.0%	120,000	0.1%
Debt Service	13,332,747	6.1%	16,072,015	7.0%	16,228,552	7.0%
Total Budget	<u>218,848,104</u>	<u>100.0%</u>	<u>230,100,977</u>	<u>100%</u>	<u>233,121,851</u>	<u>100.0%</u>
Less MSD Budget	(115,808,857)		(125,898,267)		(126,575,275)	
General Fund Budget	<u>\$ 103,039,247</u>		<u>\$ 104,202,710</u>		<u>\$ 106,546,576</u>	

### Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance at One City Hall Plaza, Manchester, NH 03101.

Statement of Net Assets

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 65,807,980	\$ 24,057,207	\$ 89,865,187
Restricted cash	5,338,142	82,824,030	88,162,172
Investments	16,179,055	3,245,877	19,424,932
Receivables	26,247,041	25,193,446	51,440,487
Prepaid expenses	4,099	870,836	874,935
Internal balances	2,302,137	(2,302,137)	-
Due from City			-
Inventories	589,385	889,349	1,478,734
Total current assets	116,467,839	134,778,608	251,246,447
Noncurrent assets:			
Land held for resale			-
Capital assets, net of depreciation	173,781,497	517,958,279	691,739,776
Pension asset	17,857,717		17,857,717
Deferred professional fees, net	329,428	2,054,524	2,383,952
Receivables		5,741,227	5,741,227
Other		285,285	285,285
Total noncurrent assets	191,968,642	526,039,315	718,007,957
<b>Total Assets</b>	<b>\$ 308,436,481</b>	<b>\$ 660,817,923</b>	<b>\$ 969,254,404</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 11,077,097	\$ 8,578,312	\$ 19,655,409
Retainage payable		2,120,603	2,120,603
Accrued liabilities	3,858,567	12,412,637	16,271,204
Other liabilities	1,296,477		1,296,477
Insurance claims payable	804,454		804,454
Due to school district	22,643,986		22,643,986
Deferred revenue	18,212,077	73,201	18,285,278
Taxes collected in advance	26,186,396		26,186,396
Total current liabilities	84,079,054	23,184,753	107,263,807
Noncurrent liabilities:			
Due within one year	24,991,194	13,230,373	38,221,567
Other liabilities due within one year		868,835	868,835
Due in more than one year	127,652,344	317,414,009	445,066,353
Other liabilities due in more than one year			-
Bond discounts		(5,181,278)	(5,181,278)
Total noncurrent liabilities	152,643,538	326,331,939	478,975,477
<b>Total Liabilities</b>	<b>236,722,592</b>	<b>349,516,692</b>	<b>586,239,284</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	84,480,112	225,163,369	309,643,481
Restricted for:			
Coverage account		13,845,394	13,845,394
Manchester Regional Industrial Foundation		1,166,851	1,166,851
PFCs		4,577,382	4,577,382
MSDC		5,214,905	5,214,905
Revenue bond O&M		5,961,000	5,961,000
Revenue bond fund		10,713,087	10,713,087
Workmen's compensation	2,964,110		2,964,110
Cemetery and other trust funds	11,925,653		11,925,653
Library trust funds	2,655,562		2,655,562
Designated for:			
Land held for resale			-
Equipment replacement		278,986	278,986
Unrestricted	(30,311,548)	44,380,257	14,068,709
<b>Total Net Assets</b>	<b>\$ 71,713,889</b>	<b>\$ 311,301,231</b>	<b>\$ 383,015,120</b>
See accompanying notes.			



Manchester School District	Component Units	
	Manchester Transit Authority	Manchester Development Corporation
\$ 6,101,523	\$ 1,004,737	\$ 1,734,420 34,398
3,714,893 13,382	506,969 48,634	645,738
22,643,986	162,671	
<u>32,473,784</u>	<u>1,723,011</u>	<u>2,414,556</u>
5,259,572	2,129,243	504,187
<u>5,259,572</u>	<u>2,129,243</u>	<u>504,187</u>
<b>\$ 37,733,356</b>	<b>\$ 3,852,254</b>	<b>\$ 2,918,743</b>
\$ 2,148,565	\$ 17,689	
14,341,212	37,003	\$ 33,930 50,401
25,215,226	5,402	
<u>41,705,003</u>	<u>60,094</u>	<u>84,331</u>
1,822,918		
4,771,685	301,942	
<u>6,594,603</u>	<u>301,942</u>	<u>-</u>
<b>48,299,606</b>	<b>362,036</b>	<b>84,331</b>
5,259,572	2,129,243	
49,484 (15,875,306)	975,262 385,713	504,187 2,330,225
<b>\$ (10,566,250)</b>	<b>\$ 3,490,218</b>	<b>\$ 2,834,412</b>

# Statement of Activities

	Expenses	Program Revenues		
		Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
General government	\$ 32,560,283	\$ 10,097,598	\$ 11,429,867	
Public safety	37,765,649	2,161,469	1,376,437	
Health and sanitation	4,196,162	1,375,369	1,203,218	
Highways and streets	28,905,257	6,288,694	6,199,844	
Welfare	1,404,958	107,019		
Education and library	3,816,562		8,965	
Parks and recreation	4,724,302	835,795	605,682	
Cemetery Trust	36,037			
Investment management fee	23,511			
Total governmental activities	113,432,721	20,865,944	20,824,013	-
Business-type activities				
Water	9,796,790	9,989,204		2,673,613
EPD	11,308,620	11,332,387	325,855	997,522
Aviation	50,322,106	42,050,284	6,768,504	25,527,921
Recreation	2,353,924	2,274,829		
Aggregation	134,986	182,090		
Total business-type activities	73,916,426	65,828,794	7,094,359	29,199,056
Total primary government:	\$ 187,349,147	\$ 86,694,738	\$ 27,918,372	\$ 29,199,056
Component units				
Manchester School District	136,173,457	16,539,326	87,600,928	332,922
Manchester Transit Authority	4,907,432	2,537,721	1,761,573	80,515
Manchester Development Corporation	69,767			
Total component units	\$ 141,150,656	\$ 19,077,047	\$ 89,362,501	\$ 413,437
General revenues:				
Property taxes				
Auto registration fees				
Franchise fees				
Unrestricted investment earnings				
Debt reimbursement from MSD				
Donation of land				
Loss on disposal of assets				
Total general revenues				
Change in net assets (deficits)				
Net assets (deficits) - beginning				
Net assets (deficits) - ending				
See accompanying notes.				

**City of Manchester New Hampshire**  
**For the Fiscal Year Ended June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets (Deficits)					
Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total	Manchester School District	Manchester Transit Authority	Manchester Development Corporation
\$ (11,032,818)		\$ (11,032,818)			
(34,227,743)		(34,227,743)			
(1,617,575)		(1,617,575)			
(16,416,719)		(16,416,719)			
(1,297,939)		(1,297,939)			
(3,807,597)		(3,807,597)			
(3,282,825)		(3,282,825)			
(36,037)		(36,037)			
(23,511)		(23,511)			
(71,742,764)	-	(71,742,764)			
	2,866,027	2,866,027			
	1,347,144	1,347,144			
	24,024,603	24,024,603			
	(79,095)	(79,095)			
	47,104	47,104			
-	28,205,783	28,205,783			
<u>\$ (71,742,764)</u>	<u>\$ 28,205,783</u>	<u>\$ (43,536,981)</u>			
			\$ (31,700,281)	\$ (527,623)	\$ (69,767)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (31,700,281)</u>	<u>\$ (527,623)</u>	<u>\$ (69,767)</u>
58,168,059		58,168,059	34,512,636		
13,873,904		13,873,904			
995,354		995,354			
1,087,525	2,626,689	3,714,214	129,158	11,726	75,837
5,985,063		5,985,063			
	(723,590)	(723,590)			
(147,804)	(940,727)	(1,088,531)		10,671	
<u>79,962,101</u>	<u>962,372</u>	<u>80,924,473</u>	<u>34,641,794</u>	<u>22,397</u>	<u>75,837</u>
8,219,337	29,168,155	37,387,492	2,941,513	(505,226)	6,070
63,494,552	282,133,076	345,627,628	(13,507,763)	3,995,444	2,828,342
<u>\$ 71,713,889</u>	<u>\$ 311,301,231</u>	<u>\$ 383,015,120</u>	<u>\$ (10,566,250)</u>	<u>\$ 3,490,218</u>	<u>\$ 2,834,412</u>

**Balance Sheet  
Governmental Funds**

**City of Manchester, New Hampshire  
June 30, 2003**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 62,840,860	\$ 36,594	\$ 2,930,526	\$ 65,807,980
Restricted cash and cash equivalents	2,074,460		3,263,682	5,338,142
Investments	511,328		15,667,727	16,179,055
Receivables, net of allowances for collection losses	20,096,729	10,748	4,610,474	24,717,951
Prepaid items	4,099			4,099
Due from other funds	10,493,960			10,493,960
Inventories	589,385			589,385
<b>Total Assets</b>	<b><u>\$ 96,610,821</u></b>	<b><u>\$ 47,342</u></b>	<b><u>\$ 26,472,409</u></b>	<b><u>\$ 123,130,572</u></b>
<b><u>Liabilities and Fund Equity</u></b>				
<b>Liabilities</b>				
Accounts and warrants payable	\$ 4,672,490	\$ 2,761,467	\$ 3,643,140	\$ 11,077,097
Accrued liabilities	1,397,348	615,000	65,590	2,077,938
Insurance claims payable	804,454			804,454
Due to other funds		5,039,968	2,074,019	7,113,987
Due to Manchester School District	23,550,478			23,550,478
Deferred revenue	17,190,758		2,987,734	20,178,492
Taxes collected in advance	26,186,396			26,186,396
Other			77,725	77,725
<b>Total Liabilities</b>	<b><u>73,801,924</u></b>	<b><u>8,416,435</u></b>	<b><u>8,848,208</u></b>	<b><u>91,066,567</u></b>
<b>Fund Equity</b>				
Fund balances				
Reserved for				
Encumbrances	1,272,469	1,305,156	559,565	3,137,190
Cemetery and other trust funds			11,925,652	11,925,652
Library			2,655,562	2,655,562
Inventory	589,385			589,385
Advances	1,623,865			1,623,865
Workers' compensation	2,964,110			2,964,110
Designated for				
Health insurance	1,879,840			1,879,840
General liability insurance	711,195			711,195
Special revenue	848,437			848,437
Tax rate stabilization	1,981,568			1,981,568
Revenue stabilization	9,633,624			9,633,624
Unreserved, reported in:				
General fund	1,304,404			1,304,404
Capital projects		(9,674,249)		(9,674,249)
Special revenue			2,483,422	2,483,422
<b>Total Fund Equity</b>	<b><u>22,808,897</u></b>	<b><u>(8,369,093)</u></b>	<b><u>17,624,201</u></b>	<b><u>32,064,005</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 96,610,821</u></b>	<b><u>\$ 47,342</u></b>	<b><u>\$ 26,472,409</u></b>	<b><u>\$ 123,130,572</u></b>

**Amounts reported for governmental activities in the statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<b>173,781,497</b>
Pension asset created in governmental activities is not a financial resource and, therefore, is not reported in the funds.	<b>17,857,717</b>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<b>1,274,131</b>
Long-term liabilities consisting of bonds payable are not due and payable in current period and, therefore, are not reported in the funds.	<b>(152,589,546)</b>
Long-term liabilities consisting of accruals are not due and payable in the current period and, therefore, are not reported in the funds.	<b>(673,915)</b>
	<b><u>\$ 71,713,889</u></b>

See accompanying notes.

**Statement of Revenues,  
Expenditures and Changes in Fund Balances (Deficit)  
Governmental Funds**

**City of Manchester, New Hampshire  
Year Ended June 30, 2003**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>				
Taxes	\$ 59,369,549			\$ 59,369,549
Federal and state grants and aid	7,549,154	\$ 4,054,014	\$ 9,152,463	20,755,631
Nonenterprise charges for sales and services	4,491,647		122,228	4,613,875
Licenses and permits	20,521,738			20,521,738
Interest	736,111		351,414	1,087,525
Contributions			117,529	117,529
Net loss on sale of securities			75,061	75,061
Other	8,594,706		740,482	9,335,188
<b>Total Revenues</b>	<b>101,262,905</b>	<b>4,054,014</b>	<b>10,559,177</b>	<b>115,876,096</b>
<b><u>Expenditures</u></b>				
Current:				
General government	18,658,422	5,332,620	6,732,051	30,723,093
Public safety	35,444,763	2,167,584	1,294,921	38,907,268
Health and sanitation	2,462,857	10,560	1,479,154	3,952,571
Highway and streets	19,902,962	7,393,925	1,839,580	29,136,467
Welfare	1,352,284		20,942	1,373,226
Education	2,145,815	19,134	100,185	2,265,134
Parks and recreation	2,992,399	881,131	839,448	4,712,978
Cemetery Trust			34,000	34,000
Investment management fee			23,511	23,511
Debt service:				
Principal retirement	10,890,802			10,890,802
Interest	5,181,212			5,181,212
<b>Total Expenditures</b>	<b>99,031,516</b>	<b>15,804,954</b>	<b>12,363,792</b>	<b>127,200,262</b>
<b>Excess (Deficiency) of     revenues over expenditures</b>	<b>2,231,389</b>	<b>(11,750,940)</b>	<b>(1,804,615)</b>	<b>(11,324,166)</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	561,912		2,025,842	2,587,754
Transfers out	(1,790,165)	(2,278)	(789,242)	(2,581,685)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,228,253)</b>	<b>(2,278)</b>	<b>1,236,600</b>	<b>6,069</b>
<b>Net Change in Fund Balances</b>	<b>1,003,136</b>	<b>(11,753,218)</b>	<b>(568,015)</b>	<b>(11,318,097)</b>
<b>Fund Balance , beginning</b>	<b>21,805,761</b>	<b>3,384,125</b>	<b>18,192,216</b>	<b>43,382,102</b>
<b>Fund Balance (Deficit), ending</b>	<b>\$ 22,808,897</b>	<b>\$ (8,369,093)</b>	<b>\$ 17,624,201</b>	<b>\$ 32,064,005</b>

See accompanying notes.

**CITY OF MANCHESTER, NEW HAMPSHIRE**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2003**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds	\$ (11,318,097)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	151,438
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(206,137)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	16,867,785
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	2,724,348
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Change in net assets of governmental activities	<u>\$ 8,219,337</u>
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See accompanying notes.

General Fund  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget and Actual (Budget Basis)

City of Manchester, New Hampshire  
Year Ended June 30, 2003

	Original Budget	Revised Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Taxes	\$ 60,069,227	\$ 60,069,227	\$ 59,031,492	\$ (1,037,735)
Federal and state grants and aid	6,673,980	6,673,980	6,748,291	74,311
Nonenterprise charges for sales and services	4,646,081	4,646,081	4,491,647	(154,434)
Licenses and permits	20,886,977	20,886,977	20,537,970	(349,007)
Interest	1,816,000	1,816,000	736,111	(1,079,889)
Other	9,385,445	9,385,445	7,928,112	(1,457,333)
<b>Total Revenues</b>	<b>103,477,710</b>	<b>103,477,710</b>	<b>99,473,623</b>	<b>(4,004,087)</b>
<b><u>Expenditures</u></b>				
Current:				
General government	20,413,968	20,830,650	18,770,932	2,059,718
Public safety	35,754,088	35,634,088	34,690,543	943,545
Health and sanitation	2,805,523	2,805,523	2,475,542	329,981
Highway and streets	21,077,677	20,843,113	20,473,882	369,231
Welfare	1,476,875	1,476,875	1,345,431	131,444
Education	2,306,852	2,283,783	2,148,845	134,938
Parks and recreation	3,230,547	3,191,498	3,018,319	173,179
Debt service:				
Principal retirement	10,890,802	10,890,802	10,890,802	
Interest	5,181,213	5,181,213	5,181,213	
<b>Total Expenditures</b>	<b>103,137,545</b>	<b>103,137,545</b>	<b>98,995,509</b>	<b>4,142,036</b>
<b>Excess of revenues over expenditures</b>	<b>340,165</b>	<b>340,165</b>	<b>478,114</b>	<b>137,949</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	350,000	350,000	306,169	(43,831)
Transfers out	(1,790,165)	(1,790,165)	(1,790,165)	
<b>Total Other Financing Sources (Uses)</b>	<b>(1,440,165)</b>	<b>(1,440,165)</b>	<b>(1,483,996)</b>	<b>(43,831)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (1,100,000)</b>	<b>\$ (1,100,000)</b>	<b>\$ (1,005,882)</b>	<b>\$ 94,118</b>

See accompanying notes.

Proprietary Funds  
Statement of Net Assets

City of Manchester, New Hampshire  
June 30, 2003

	Business-type Activities-Enterprise Funds				
	Water Works Fund	Major EPD Fund	Aviation Fund	Non-Major Funds	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents		\$ 24,057,207			\$ 24,057,207
Restricted cash and cash equivalents	\$ 4,418,497	673,924	\$ 77,731,609		82,824,030
Restricted investments			3,245,877		3,245,877
Receivables, net of allowances for collection losses	2,432,277	4,608,296	17,955,778	\$ 197,095	25,193,446
Prepaid items	253,100		587,000	30,736	870,836
Due from other funds	394,467				394,467
Inventories	735,445	46,088	101,908	5,908	889,349
Total current assets:	8,233,786	29,385,515	99,622,172	233,739	137,475,212
Noncurrent assets:					
Capital assets, net, where applicable, of accumulated depreciation	69,096,428	110,984,726	333,851,942	4,025,183	517,958,279
Deferred charges			2,015,596	38,928	2,054,524
Receivables		5,741,227			5,741,227
Other receivables		285,285			285,285
Total noncurrent assets:	69,096,428	117,011,238	335,867,538	4,064,111	526,039,315
<b>Total Assets</b>	<b>\$ 77,330,214</b>	<b>\$ 146,396,753</b>	<b>\$ 435,489,710</b>	<b>\$ 4,297,850</b>	<b>\$ 663,514,527</b>
<b>Liabilities</b>					
Current liabilities					
Accounts and warrants payable	\$ 516,000	\$ 1,085,248	\$ 6,874,207	\$ 102,857	\$ 8,578,312
Retainage payable		394,938	1,725,665		2,120,603
Accrued liabilities	630,065	1,539,449	10,208,704	34,419	12,412,637
Due to other funds	671,112			2,025,492	2,696,604
Deferred revenue			73,201		73,201
Bonds and notes payable	832,233	5,790,454	5,050,000	121,600	11,794,287
Compensated absences	930,549	234,532	119,190	151,815	1,436,086
Other	821,426	47,409			868,835
Total Current liabilities	4,401,385	9,092,030	24,050,967	2,436,183	39,980,565
Noncurrent liabilities					
Bonds payable	9,424,225	27,037,247	266,203,722	824,400	303,489,594
Notes Payable	1,753,431	6,766,600			8,520,031
Deferred Revenue			129,684	18,794	148,478
Other			74,628		74,628
Total Noncurrent liabilities	11,177,656	33,803,847	266,408,034	843,194	312,232,731
<b>Total Liabilities</b>	<b>15,579,041</b>	<b>42,895,877</b>	<b>290,459,001</b>	<b>3,279,377</b>	<b>352,213,296</b>
<b>Net Assets</b>					
Invested in Capital Assets, net of related debt	60,484,925	71,390,425	90,208,836	3,079,183	225,163,369
Restricted	5,214,905	278,986	36,263,714		41,757,605
Unrestricted	(3,948,657)	31,831,465	18,558,159	(2,060,710)	44,380,257
<b>Total Net Assets</b>	<b>\$ 61,751,173</b>	<b>\$ 103,500,876</b>	<b>\$ 145,030,709</b>	<b>\$ 1,018,473</b>	<b>\$ 311,301,231</b>



Proprietary Funds  
Combining Statement of Revenues, Expenses  
and Changes in Fund Net Assets

City of Manchester, New Hampshire  
Year Ended June 30, 2003

	Business-type Activities-Enterprise Funds				
	Major				
	Water Works Fund	EPD Fund	Aviation Fund	Non-major Funds	Total
<b><u>Operating Revenues</u></b>					
Charges for goods and services	\$ 10,032,235	\$ 11,225,665	\$ 32,342,749	\$ 2,366,092	\$ 55,966,741
Other			3,044,487	51,928	3,096,415
<b>Total Operating Revenues</b>	<b>10,032,235</b>	<b>11,225,665</b>	<b>35,387,236</b>	<b>2,418,020</b>	<b>59,063,156</b>
<b><u>Operating Expenses</u></b>					
Personnel services	4,681,087	2,574,297	4,237,332	1,471,774	12,964,490
Plant maintenance	512,478	1,700,390	2,182,001	83,703	4,478,572
Light/heat and power	835,177	1,631,374	1,585,245	281,411	4,333,207
General and administrative	1,371,017	509,004	12,188,102	270,289	14,338,412
Depreciation and amortization	2,126,843	4,525,236	10,426,537	331,068	17,409,684
<b>Total Operating Expenses</b>	<b>9,526,602</b>	<b>10,940,301</b>	<b>30,619,217</b>	<b>2,438,245</b>	<b>53,524,365</b>
<b>Operating Income (Loss)</b>	<b>505,633</b>	<b>285,364</b>	<b>4,768,019</b>	<b>(20,225)</b>	<b>5,538,791</b>
<b><u>Non-Operating Revenues (Expenses), net</u></b>					
Soundproofing program grant			6,768,504		6,768,504
Soundproofing program expense			(6,516,717)		(6,516,717)
Interest income	313,084	356,016	2,252,535		2,921,635
Interest expense	(532,366)	(1,091,910)	(12,974,092)	(83,433)	(14,681,801)
Reimbursements of bond interest expense		285,507			285,507
Finance and service charges		106,722	(212,078)		(105,356)
Passenger facility charges			4,632,085		4,632,085
Customer facility charges			2,030,963		2,030,963
Rent and other income	(43,031)			38,899	(4,132)
Donation of land		(723,590)			(723,590)
Loss on disposal of fixed assets	(192,410)	(20,269)	(4,459)		(217,138)
<b>Total Non-operating Expenses</b>	<b>(454,723)</b>	<b>(1,087,524)</b>	<b>(4,023,259)</b>	<b>(44,534)</b>	<b>(5,610,040)</b>
Net income (loss) before capital contributions	50,910	(802,160)	744,760	(64,759)	(71,249)
Capital Contributions	2,673,613	1,037,870	25,527,921		29,239,404
<b>Change in Net Assets</b>	<b>2,724,523</b>	<b>235,710</b>	<b>26,272,681</b>	<b>(64,759)</b>	<b>29,168,155</b>
<b>Fund Net Assets, beginning of year</b>	<b>59,026,650</b>	<b>103,265,166</b>	<b>118,758,028</b>	<b>1,083,232</b>	<b>282,133,076</b>
<b>Fund Net Assets, end of year</b>	<b>\$ 61,751,173</b>	<b>\$ 103,500,876</b>	<b>\$ 145,030,709</b>	<b>\$ 1,018,473</b>	<b>\$ 311,301,231</b>

Proprietary Funds  
Statement of Cash Flows

City of Manchester, New Hampshire  
Year Ended June 30, 2003

	Business-type Activities-Enterprise Funds				Total
	Water Works Fund	Major EPD Fund	Aviation Fund	Non-Major Funds	
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 9,572,978	\$ 11,646,798	\$ 34,056,058	\$ 2,275,939	\$ 57,551,773
Cash payments for goods and services	(2,877,398)	(4,578,587)	(16,434,972)	(648,942)	(24,539,899)
Cash payments to employees for services	(4,670,004)	(2,466,793)	(4,215,003)	(1,449,451)	(12,801,251)
Other operating revenues				74,982	74,982
<b>Net Cash Provided by Operating Activities</b>	<b>2,025,576</b>	<b>4,601,418</b>	<b>13,406,083</b>	<b>252,528</b>	<b>20,285,605</b>
<b>Cash Flows from Non-Capital and Related Financing Activities</b>					
Amounts from federal & state governments for soundproofing			6,768,504	-	6,768,504
Soundproofing related expenses			(6,516,717)	-	(6,516,717)
Passenger and customer facility charges			6,572,048	-	6,572,048
Interest paid on cash advances				(27,238)	(27,238)
Short-term cash advance from City	671,112			76,344	747,456
<b>Net Cash Provided by Non-Capital &amp; Related Financing Activities</b>	<b>671,112</b>	<b>-</b>	<b>6,823,835</b>	<b>49,106</b>	<b>7,544,053</b>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from State of New Hampshire Revolving Fund	1,753,431	3,590,705		-	5,344,136
Reimbursement of bond interest expenses		305,878		14,917	320,795
Payments for State of New Hampshire liability		(4,932,750)		-	(4,932,750)
Principal paid on bonds	(866,585)	(920,914)	(4,465,000)	(151,600)	(6,404,099)
Interest paid on bonds	(532,366)	(1,193,205)	(10,103,368)	(57,354)	(11,886,293)
Contributed capital by federal, state & local governments	2,673,613	1,556,022	20,431,718	-	24,661,353
Acquisition and construction of capital assets	(5,666,378)	(7,852,527)	(56,195,373)	(222,597)	(69,936,875)
Proceeds from sale of capital assets				115,000	115,000
<b>Net Cash Used in Capital &amp; Related Financing Activities</b>	<b>(2,638,285)</b>	<b>(9,446,791)</b>	<b>(50,332,023)</b>	<b>(301,634)</b>	<b>(62,718,733)</b>
<b>Cash Flows from Investing Activities</b>					
Sale of investment securities			648,893	-	648,893
Interest and dividends from investments	313,084	446,570	2,252,535	-	3,012,189
<b>Net Cash Provided by Investing Activities</b>	<b>313,084</b>	<b>446,570</b>	<b>2,901,428</b>	<b>-</b>	<b>3,661,082</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>371,487</b>	<b>(4,398,803)</b>	<b>(27,200,677)</b>	<b>-</b>	<b>(31,227,993)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>4,047,010</b>	<b>29,129,934</b>	<b>104,932,286</b>	<b>-</b>	<b>138,109,230</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 4,418,497</b>	<b>\$ 24,731,131</b>	<b>\$ 77,731,609</b>	<b>\$ -</b>	<b>\$ 106,881,237</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>					
Operating income (loss)	\$ 505,633	\$ 285,364	\$ 4,768,019	\$ (20,225)	\$ 5,538,791
Adjustments to reconcile operating income (loss) to cash provided by operating activities:					
Depreciation and amortization	2,126,843	4,525,236	10,426,537	331,068	17,409,684
Non-operating revenue				23,982	23,982
<b>Change in Assets and Liabilities</b>					
(Increase) decrease in receivables	(459,257)	264,865	(1,350,373)	(3,235)	(1,548,000)
(Increase) decrease in inventories	(11,799)	10,692	(101,908)	-	(103,015)
Increase in prepaid expenses and other assets	(163,179)	(8,943)	(412,939)	(30,736)	(615,797)
Increase (decrease) in accounts payable	(189,426)	(800,642)	(569,255)	15,198	(1,544,125)
Increase (decrease) in accrued liabilities	214,782	305,541	604,478	(91,213)	1,033,588
Increase in compensated absences	11,083	19,305	22,329	22,323	75,040
Increase in Deferred Revenue			19,195	5,366	24,561
Decrease in interfund liabilities	(9,104)				(9,104)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 2,025,576</b>	<b>\$ 4,601,418</b>	<b>\$ 13,406,083</b>	<b>\$ 252,528</b>	<b>\$ 20,285,605</b>
<b>Schedule of Noncash Investing, Capital and Financing Activities</b>					
Transfer of Debt to General fund				25,000	25,000
Donation of land		723,590			723,590

**Fiduciary Funds**  
**Statement of Fiduciary Net Assets**

**City of Manchester, New Hampshire**  
**Year ended June 30, 2003**

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 10,190,659	
Investments	83,463,697	
Receivables, net of allowances for collection losses	436,709	\$ 1,077,836
Other assets	8,927	
Capital assets, net, where applicable, of accumulated depreciation	<u>240,975</u>	
<b>Total Assets</b>	<b><u>\$ 94,340,967</u></b>	<b><u>\$ 1,077,836</u></b>
 <b>Liabilities</b>		
Accounts and warrants payable	\$ 137,940	
Accrued liabilities	562,762	
Due to other funds		<u>\$ 1,077,836</u>
<b>Total Liabilities</b>	<b><u>700,702</u></b>	<b><u>\$ 1,077,836</u></b>
 <b>Net Assets</b>		
Held in trust for Employees' Retirement System	<b><u><u>\$ 93,640,265</u></u></b>	

See accompanying notes.

**Fiduciary Trusts**  
**Statement of Changes in Fiduciary Net Assets**

**City of Manchester New Hampshire**  
**Year Ended June 30, 2003**

	<u><b>Pension Trust Funds</b></u>
<b>Additions</b>	
Contributions	
Employer	\$ 1,794,576
Plan members	1,531,458
<b>Total Contributions</b>	<u>3,326,034</u>
Investment Gain (Loss)	
Net realized and unrealized depreciation in fair value of investments	(10,175,748)
Interest	1,403,694
Dividends	1,067,951
Less investment expense	(380,435)
<b>Net Investment Loss</b>	<u>(8,084,538)</u>
<b>Total Additions (Reductions)</b>	<u>(4,758,504)</u>
<b>Deductions</b>	
Benefits paid directly to participants	6,566,563
Refunds of employee contributions	301,901
Administrative expenses	645,320
<b>Total Deductions</b>	<u>7,513,784</u>
<b>Net Decrease</b>	(12,272,288)
<b>Net Assets Held in Trust for Pension Benefits</b>	
Beginning of year	105,912,553
End of year	<u>\$ 93,640,265</u>

**NOTES TO  
FINANCIAL STATEMENTS**

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies**

**Reporting entity**

The City of Manchester, New Hampshire, (the City) was incorporated in June of 1846 and operates as a municipal corporation governed by an elected mayor and a fourteen (14) member aldermanic board. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and as a result, the component units discussed below are included in the City's reporting entities because of their operational significance and financial relationship with the City.

**Discretely presented component units**

Manchester Development Corporation ("MDC") - The MDC was created by the Board of Mayor and Aldermen ("BMA") as a public corporation for the purpose of developing economic opportunities for the City. The MDC Board of Directors is comprised of twelve (12) members, all of whom shall be nominated by the Mayor and confirmed by the Board of Aldermen of the City. Separate financial statements are not available. MDC is presented as a governmental fund type.

Manchester School District ("District" or "MSD") - The MSD is responsible for elementary and secondary education within the government's jurisdiction. The fourteen (14) members of the school board are elected by the voters. However, the District is fiscally dependent upon the government as the government's BMA approves the District's budget, levies taxes (if necessary) and must approve any debt issuances. Other independent auditors audited the MSD, a June 30 year-end, and their report, dated September 19, 2003, has been issued under separate cover. The District is presented as a governmental fund type.

Manchester Transit Authority ("MTA") - The MTA was created by the BMA to provide a public transportation system for the citizens of the City. A five-member board appointed by the BMA oversees the MTA. Other independent auditors audited the MTA, a June 30 year-end, and their report, dated August 28, 2003, has been issued under separate cover. The MTA is presented as a proprietary fund type.

Complete financial statements of the individual component units for MSD and MTA may be obtained directly from their administrative offices.

Manchester Development Corporation  
One City Hall Plaza  
Manchester NH 03104

Manchester School District  
196 Bridge Street  
Manchester NH 03104

Manchester Transit Authority  
110 Elm Street  
Manchester NH 03101-2799

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies (continued)**

**Blended Component Unit**

City of Manchester Employees' Contributory Retirement System (the "New System") - The New System was created by the BMA for the purpose of administering the assets of the employees' contributory retirement system. The New System's Board of Trustees consists of seven members, as follows: the City Finance Officer, the Mayor, one person appointed by the Board of Aldermen, two citizens of the City - one appointed by the Mayor, one elected by the New System members and two New System members also elected by the New System members. Other independent auditors audited the New System, a December 31 year end, for the year ended December 31, 2002, and their report, dated March 14, 2003, has been issued under separate cover. The New System is presented as a pension trust fund.

Complete financial statements of the individual component units may be obtained directly from its administrative office.

City of Manchester Employees'  
Contributory Retirement System  
1045 Elm Street  
Manchester NH 03101

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its non-blended component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain locally separate component units which the city is financially accountable for.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred,

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies (continued)**

regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied, provided an enforceable legal claim exists. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payable from current financial resources.

Property taxes when levied for, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements) the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for financial resources to be used for capital expenditures or for the acquisition or construction of capital facilities, improvements and/or equipment. Most of the capital outlays are financed by the issuance of general obligation bonds. Other sources include capital grants and low-interest state loans.

The City reports the following major proprietary funds:

The *Water Works Fund* accounts for the operations of the City's water service for residential, commercial and industrial entities for the City and six surrounding communities. It is independent in terms of its relationship to other City functions. Its operations are financed from special assessments and direct charges to the users of the service.

The *Environmental Protection Division (EPD)* accounts for the operations of the City's wastewater treatment plant as well as all services related to the treatment of sewage for the City and three surrounding communities. Its operations are financed from special assessments and direct charges to the users of the service.

*Aviation Fund* is used to account for the operations of the City's airport which is operated by the Department of Aviation.



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies (continued)**

Additionally, the City reports the following fund types:

*Permanent Trust Funds* are used to account for assets, contributions and income earned on investments used to maintain the City's cemeteries, endowment funds, and libraries.

The *Pension Trust Funds* account for the activities of the City's two defined benefit pension plans, which accumulate resources for pension benefit payments to qualified employees.

The *Agency Funds* account for monies held as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the proprietary funds include the cost of operations and maintenance, provision for doubtful accounts, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies (continued)**

Cash equivalents

New Hampshire Revised Statutes Annotated (“RSA”) Chapter 48:16 (“RSA 48:16”), as amended, establishes the policy the City must adhere to when investing City funds. With approval of the BMA, the Finance Officer, acting as Treasurer, may invest in obligations of the United States government, in savings bank deposits of banks incorporated under the laws of the State of New Hampshire (“the State”), in participation units of the New Hampshire Public Deposit Investment Pool (“NH-PDIP”), in certificates of deposit of banks incorporated under the laws of the State, or in national banks located in New Hampshire or the Commonwealth of Massachusetts. RSA 48:16 does not allow the City to enter into reverse repurchase agreements.

The City’s cash and cash equivalents represent short-term investments with an initial maturity of three months or less.

Investments

Investments are stated at fair value using quoted market prices.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life equal to or in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment that has been purchased by governmental funds is recorded as expenditures in the purchasing funds at the time of purchase or construction, and no depreciation expense is recorded. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net interest cost capitalized in the Environmental Protection Division Fund and Aviation Fund amounted to approximately \$29,000 and \$1,212,000, respectively, for the year ended June 30, 2003.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-60
Improvements	5-30
Equipment	5-15
Vehicles	3-10
Interceptors (EPD)	50
Infrastructure	20-50

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies (continued)**

Compensated absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements.

The current liability for compensated absences, which represents the City's commitment to fund such costs from future operations, is reported in the governmental funds' accrued liabilities while the long term portion is recorded in the government-wide statements. The liability reported as compensated absences includes vested and accumulated vacation leave and sick leave benefits that are not expected to be liquidated with current fiscal year available financial resources. No liability is recorded for nonvesting accumulating rights to receive sick-pay benefits. However, a liability is recognized for that portion of accumulated sick-leave benefits that it is estimated will be taken as terminal leave prior to retirement.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension accounting

**Pension Trust Funds:**

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Government-wide Statements:**

The net pension obligation (asset), the cumulative difference between annual pension cost and the City's contributions to the plans since 1986, is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 27 and is recognized in the government wide financial statements. Expenditures are recognized when they are paid or are expected to be paid with current available resources.

**Funding Policy:**

The City makes annual contributions based upon annual actuarial determinations.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**1. Summary of Significant Accounting Policies (continued)**

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance as they do not constitute either expenditures or liabilities.

Inventory

Inventory is stated as lower of cost or market on a first-in, first-out basis.

Land held for resale

The City holds property for resale. The carrying value of this property is reported at the lower of cost or net realizable value. When the property is sold the cost of the portion sold is charged to expenditure.

Fund Equity and Net Assets

In the Governmental-Wide Financial Statements, net assets are classified in the following categories:

***Invested in Capital Assets, Net of Related Debt*** – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

***Restricted Net Assets*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

***Unrestricted Net Assets*** – This category represents the net assets of the City, which are not restricted for any project or other purpose.

In the fund financial statements, fund balances of governmental funds are classified in three separate categories. The two categories, and their general meanings, are as follows:

***Reserved fund balance*** - indicates that portion of fund equity which has been legally segregated for specific purposes.

***Undesignated and unreserved fund balance*** - indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**2. Reconciliation of Government-Wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities are reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long-term assets are not available to pay for current period expenditures, and therefore, are not reported in the funds.” The details of the \$1,274,131 difference consisting of current assets are as follows:

Accounts receivable:	
Trade	\$ 944,703
Deferred professional fees:	
Underwriters’ discount and Cost of Issuance	329,428
Net adjustment to increase fund balance – total governmental funds	<hr/>
to arrive at net assets – governmental activities	\$ 1,274,131

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$(152,589,546) difference consisting of long-term debt are as follows:

Bonds payable:	\$ (118,936,695)
Less: Deferred loss on refunding (to be amortized as interest expense)	738,270
Add: Deferred charge for refunding premium (to be amortized over life of debt)	(135,278)
Deferred discount on pension obligation (to be amortized as interest expense)	(549,000)
Capital appreciation bonds	(5,136,395)
Compensated absences	(6,328,390)
Insurance claims	(4,135,101)
Landfill closure and post-closure care	(18,106,957)
Net adjustment to reduce fund balance – total governmental funds	<hr/>
to arrive at net assets – governmental activities	\$ (152,589,546)

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**2. Reconciliation of Government-Wide and Fund Financial Statements (continued)**

The details of the \$(673,915) difference consisting of current accruals are as follows:

Accrued interest	\$ (3,067,544)
Due to School District	427,215
Deferred revenue	<u>1,966,414</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ (673,915)</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$151,438 difference are as follows:

Capital outlay	\$ 8,347,013
Asset retirements	(17,887)
Depreciation expense	<u>(8,177,688)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 151,438</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**2. Reconciliation of Government-Wide and Fund Financial Statements (continued)**

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$16,867,785 difference are as follows:

Long-term liabilities issued or incurred:	
Less series 2001 A discounts and COI amortization	\$ (3,609)
Less series 2001 B discounts and COI amortization	(6,141)
Less series 2001 C discounts and COI amortization	(5,560)
Less series 2001 C discounts and COI amortization	195,244
Less series 2001 B deferred loss on refinancing	(49,218)
Add series 2001 B premium	30,500
Add series 2001 B refunding premium	(153,315)
Add series 2001 B refunding premium	9,019
General obligation debt-Aggregation fund transfer	(25,000)
Principal repayments:	
General obligation debt-City portion	10,890,802
General obligation debt-MSD portion reimbursed	<u>5,985,063</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 16,867,785</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$2,724,348 difference are as follows:

Prepaid Pension Asset	\$ (653,531)
Long-term liabilities incurred:	
Risk reserve	(64,020)
Landfill reserve	3,402,780
Capital appreciation bonds reserve	851,235
Compensated absences	(909,898)
Accrued interest	<u>97,782</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 2,724,348</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**3. Stewardship, Compliance and Accountability**

**A. Budgets and Budgetary Accounting**

Pursuant to the City's Charter, Section 6.01, the City adopts an annual budget for all General Fund functions and certain enterprise functions (the Water Works enterprise fund operates on a nonappropriated budgetary basis). The legal level of budgetary control is the department level. The special revenue and capital project funds are appropriated through a five-year capital improvement plan.

All portions of the annual City budget and the MSD budget are prepared under the direction of the Mayor. The Mayor establishes the procedures applicable to the preparation and adoption of the annual budget. Budgets include all proposed expenditures and the proposed use of all anticipated revenues. All departments, agencies, and officers submit detailed statements of departmental budget requests to the Mayor per established procedures.

The Mayor develops budget recommendations on appropriations and revenues and submits the recommendations to the BMA on or before the last day of March of each year. Departmental appropriations are made on a bottom-line basis. Benefits and non-departmental items are appropriated apart from the departmental budgets.

The Finance Committee of the BMA reviews the proposed budget recommendations presented by the Mayor. The BMA may increase, reduce or reject any item in the budget submitted by the Mayor. A public hearing is required to be conducted. A majority vote of the BMA is required to adopt the budget appropriation resolutions and is to be completed no later than the second Tuesday in June. The Mayor has line item veto authority.

If the BMA fail to adopt appropriation resolutions, the budget, as originally submitted by the Mayor, shall become the budget.

If during the fiscal year the Mayor certifies, after consultation with and verification by the Finance Officer, that there are available for appropriation revenues in excess of those estimated in the budget, the BMA may make supplemental appropriations for the year up to the amount of such excess, after observing the budget procedures set forth in section 6.04 of the City Charter. There were no additional appropriations during the year.

If at any time during the fiscal year it appears probable to the Mayor, after consultation with and verification by the Finance Officer, that the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized, the Mayor shall report to the BMA without delay, indicating the estimated amount of the deficit, any remedial action taken by the Mayor and recommendations as to any other steps to be taken. The BMA shall then take such further action as it deems necessary to prevent or reduce any deficit and for that purpose it may reduce one or more appropriations.

The legal level of control for budgetary is established by object categories within the departmental budgets. Departmental budget transfers from one object category to another must be approved by the Finance Officer prior to approval of the BMA. The Finance Officer is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**3. Stewardship, Compliance and Accountability (continued)**

Encumbrance accounting is employed in governmental funds. On the GAAP basis, encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statements of Revenues and Expenditures - Budgetary Basis, presents the "actual" results to provide a comparison with the budgets.

The major differences between the budgetary basis and the GAAP basis are:

- (a) Tax revenues are recorded when invoiced (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no firm liability exists.

**B. Budget/GAAP Reconciliation**

Reconciliation of the reported revenues and expenditures of the general fund between the budgetary basis and the GAAP basis are presented below:

	<u>Revenues</u>	<u>Expenditures</u>
Statement of revenues and expenditures -		
budgetary basis	\$ 99,473,623	\$ 98,995,509
Central Business District	224,867	225,000
Riverfront reimbursements	570,420	
Civic Center revenue sharing	226,091	
Current year encumbrances	(16,232)	(1,272,469)
State retirement contributions	800,863	800,863
Tax revenues of 2002 recognized in 2003	896,948	
Tax revenues of 2003 deferred until 2004	(783,758)	
Loss on disposal of capital assets	(129,917)	
Prior year encumbrances adjustment		(417)
Expenditures of prior year encumbrances		283,030
	<u>                    </u>	<u>                    </u>
Statement of revenues, expenditures and changes in fund		
balances (in conformity with GAAP)	<u>\$ 101,262,905</u>	<u>\$ 99,031,516</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**4. Cash, Cash Equivalents and Investments**

**Primary Government**

Cash and cash equivalents consist of the following types of accounts at June 30, 2003.

<b>Cash &amp; Cash Equivalents</b>	<b>Primary Government</b>	<b>Component Units</b>
Restricted Deposits	\$10,273,830	\$ 34,398
Deposits	853,250	864,667
(1) Repurchase Agreements	122,713,199	115,474
(1) Money Market / Index Funds	30,819,890	
(1) NH - PDIP Unclassified	22,753,364	
(1) MDC – Vanguard/BNH Portfolio Trust		754,279
	<u>\$ 187,413,533</u>	<u>\$1,768,818</u>
(1) See categorization under investments		
<b>Investments</b>	<u>\$ 28,789,032</u>	<u>0</u>

The City pools substantially all cash, except for separate cash accounts, which are maintained in accordance with legal restrictions.

Written contracts relative to third party holders of collateral or establishing each party's rights with regard to repurchase agreements are entered into by the City. Banks through which repurchase notes are written maintain their collateral in an investment book entry account with the Federal Reserve. For certain contracts collateral is separate from the bank's assets, while for other contracts it is not separate. Repurchase agreements are entered into only with financial institutions; no brokers or dealers are involved in these transactions. The following tables present collateral information for the City's deposits for all funds, as well as the City's component units.

Category A: Fully insured or collateralized with securities held by the City or its agent in the City's name.

Category B: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category C: Uncollateralized

	<b>Category</b>			<b>Total Bank Balance</b>	<b>Carrying Amount</b>
	<b>A</b>	<b>B</b>	<b>C</b>		
Pooled Deposits					
Demand deposits	\$ 6,582,280		\$ 9,945	\$ 6,592,225	\$ 1,717,917
Restricted Deposits	<u>10,273,830</u>		<u>35,398</u>	<u>10,309,228</u>	<u>10,309,228</u>
Total Deposits	<u>\$16,856,110</u>	<u>\$ -</u>	<u>\$45,343</u>	<u>\$16,901,453</u>	<u>\$12,027,145</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**4. Cash, Cash Equivalents and Investments (continued)**

In accordance with GASB Statement 3, investments are classified as to risk by the three categories described below:

- Category 1: Insured or registered in the City's name, or securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the City's name.

	Category			Uncategorized (1)	Carry and Fair Value
	1	2	3		
Investments					
US Treasury Notes		\$ 3,879,552			\$ 3,879,552
US Government Securities			\$ 996,753		996,753
Corporate Bonds			4,211,539		4,211,539
Common Stocks			1,358,576		1,358,576
Index Funds				\$ 13,237,238	13,237,238
Equity Mutual Funds				44,925	44,925
Fixed Inc Mutual Funds				124,630	124,630
Mortgage-Back				1,689,942	1,689,942
Total Investments	\$ -	\$ 3,879,552	\$ 6,566,868	\$ 15,096,735	\$ 25,543,155
Cash Equivalents					
Repurchase Agreements		\$ 125,958,076			\$ 125,958,076
Non-Categorized Items (2)					
Index Funds					30,819,890
NH - PDIP Unclassified					22,753,364
Total Cash Equivalents	\$ -	\$ 125,958,076	\$ -	\$ -	\$ 179,531,330
Grand Total	\$ -	\$ 129,837,628	\$ 6,566,868	\$ 15,096,735	\$ 205,074,485

(1) Funds are not subject to investment classification because specific securities related to the City cannot be identified

(2) The amounts are not subject to risk categorization since the City does not own identifiable securities.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**4. Cash, Cash Equivalents and Investments (continued)**

At year end, the CRS Pension Trust's cash balance was as follows:

Cash and cash equivalents consist of the following types of accounts at December 31, 2002.

<b>Cash &amp; Cash Equivalents</b>	<b>CRS Pension Trust</b>
Deposits	\$ 804,485
(1) See categorization under investments	
<b>Investments</b>	<u>\$ 74,099,597</u>

At year end, the CRS Pension Trust's investment balances were as follows:

	<u>Uncategorized (1)</u>	<u>Carry and Fair Value</u>
Investments		
Equity funds	\$ 60,582,597	\$ 60,582,597
Fixed income	11,247,364	11,247,364
Emerging market funds	1,869,155	1,869,155
Cash and equivalents	400,481	400,481
Total Investments	<u>\$ 74,099,597</u>	<u>\$ 74,099,597</u>

- (1) Funds are not subject to investment classification because specific securities related to the City cannot be identified.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**5. Taxes and Abatements**

The principle tax of the City is the tax on real property. The State has no cap or limit as to the rate or amount of tax a municipality may raise. The municipality's annual property tax rate is established by the Commissioner of the Department of Revenue Administration of the State, based on reports filed with the State. A single tax is levied for general, county and school purposes. The "assessment year" for taxing purposes runs from April 1 to March 31 of the following year.

The City bills and collects its property taxes in two installments. The levy dates are June 1 and November 1 and the due dates for these semi-annual tax billings are July 1 and December 1. Property taxes are recorded as a receivable when billed, net of estimated allowance for abatements. Property tax revenues have been recorded using the modified accrual basis of accounting as described in Note 1.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property taxes prior to May 1 of the following assessment year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest and costs will be accepted and the lien released.

Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. During the redemption period, 18 percent interest per annum is charged. Beyond the two-year period of redemption the City has the right to foreclose on properties for which taxes have not been paid. Properties are deeded to the City unless either the lien has been sold by the City, or the City has notified the tax collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on owners. Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector's deeds are free and clear of all encumbrances.

In December 1997, the New Hampshire Supreme Court declared that the property tax to fund education is a State tax, and therefore must be administered in a manner that is equal in valuation and uniform in rate throughout the State.

Chapter 17 of the Laws of 1999 became effective in 1999. The law includes a definition of "adequate education" for New Hampshire schools and establishes an "Education Trust Fund" and a formula for providing state financial assistance to local school districts.

The primary means of State funding for the Education Trust fund is a uniform statewide property tax under which some of the levies from more prosperous ("property rich" or "donor") communities will be collected by the State and redistributed to less affluent ("property poor" or "recipient") school districts. The law initially established a uniform tax rate of \$6.60 per thousand of total equalized value (not including utility property or local exemptions) but has been adjusted to \$5.80 for 2003. The new state aid property tax is assessed and collected in virtually the same manner in which property taxes have been administered in the past with one primary exception, donor communities will be required to send amounts in excess of what is required locally for an adequate education to the State for redistribution to recipient districts. The MSD is a recipient district.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**6. Receivables**

**Primary Government**

	General	CIP	MWW	EPD	Aviation	Other	Total
Due from Warrants	\$ 15,166,804						\$15,166,804
Due from State of NH & other local governments	2,459,292			\$ 7,229,020	\$ 654,471		10,342,783
Prior year tax liens	716,177						716,177
Tax titles	975,602						975,602
Due from federal government				69,705	13,829,513	\$ 391,865	14,291,083
Accounts receivable-trade	1,310,502	\$ 10,748	\$ 2,192,558	2,776,263	3,406,794	209,800	9,906,665
Notes receivable						4,194,609	4,194,609
Other	507,362		239,719	559,820	65,000	11,295	1,383,196
Total gross receivables	21,135,739	10,748	2,432,277	10,634,808	17,955,778	4,807,569	56,976,919
Allowance for collection losses	(1,039,010)						(1,039,010)
Total net receivables	<u>\$ 20,096,729</u>	<u>\$ 10,748</u>	<u>\$ 2,432,277</u>	<u>\$ 10,634,808</u>	<u>\$ 17,955,778</u>	<u>\$ 4,807,569</u>	<u>\$ 55,937,909</u>

The receivables from the State of New Hampshire and other governmental entities represent their contractual commitment to reimburse the City for the repayment of debt incurred to build its wastewater treatment and related facilities.

**7. Interfund Receivables, Payables and Transfers**

Due from/to other funds consist of the following at June 30, 2003:

Receivable Fund	Payable Fund	Amount
General Fund	Agency	\$ 1,077,836
	Special Revenue:	
	Other grants	
	HUD Section 108	1,573,984
	CDBG	105,568
	Enterprise:	
	Recreation	401,627
	Water Works	671,112
	Aggregation	1,623,865
		<u>10,493,960</u>
Water Works	Expendable Trust	<u>394,467</u>
Total - All Funds		<u>\$ 10,888,427</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**7. Interfund Receivables, Payables and Transfers (continued)**

The balances of \$671,112, \$401,627 and \$1,623,865 due from the three enterprises to the general fund are the result of short-term advances. The balance of \$394,467 is also a result of a short-term advance. All remaining balances resulted from the time lag between the dates payments occur between funds for various activities.

Interfund transfers during the year ended June 30, 2003 were as follows:

Due to / from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government - general fund	Component unit - MDC	<u>\$ 6,069</u>

Interfund transfers:

<u>Transfers out</u>	<u>Transfers In:</u>		<u>Total</u>
	<u>General Fund</u>	<u>Other Funds</u>	
General Fund		\$ 1,790,165	\$ 1,790,165
Other Funds	555,843	233,399	789,242
Capital Projects		2,278	2,278
	<u>\$ 555,843</u>	<u>\$ 2,025,842</u>	<u>\$ 2,581,685</u>

Transfers are used to account for unrestricted revenues collected mainly in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**8. Capital Assets**

**Governmental activities**

Changes in the governmental capital assets for the year ended June 30, 2003, were as follows:

	Balance 30-Jun-02	Additions	Retirements	Transfers	Balance 30-Jun-03
Capital assets, not being depreciated					
Land	\$ 18,365,631	\$ 402,581		\$ 215,596	\$ 18,983,808
Construction-in-Progress	17,544,172	3,156,848		\$ (1,798,970)	18,902,050
Total capital assets, not being depreciated	35,909,803	3,559,429	-	(1,583,374)	37,885,858
Capital assets, being depreciated					
Buildings	168,715,492	860,600		1,100,000	170,676,092
Improvements other than buildings	13,990,266	289,682	\$ (47,700)	21,900	14,254,148
Equipment	4,906,664	1,042,665	-	111,595	6,060,924
Vehicles	15,038,936	1,255,776	(209,882)		16,084,830
Infrastructure	33,741,900	1,338,861	-	349,879	35,430,640
Total capital assets, being depreciated	236,393,258	4,787,584	(257,582)	1,583,374	242,506,634
Less accumulated depreciation					
Buildings	62,188,625	4,815,031	-	-	67,003,656
Improvements other than buildings	5,678,445	625,087	(29,813)	-	6,273,719
Equipment	2,926,577	414,210	-		3,340,787
Vehicles	11,709,926	975,993	(209,882)	-	12,476,037
Infrastructure	16,169,429	1,347,367	-	-	17,516,796
Total accumulated depreciation	98,673,002	8,177,688	(239,695)	-	106,610,995
Governmental Activities Capital Assets, Net	\$ 173,630,059	\$ 169,325	\$ (17,887)	\$ -	\$ 173,781,497



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**8. Capital Assets (continued)**

**Business-type Activities**

	Balance 30-Jun-02	Additions	Retirements	Transfers	Balance 30-Jun-03
Capital assets, not being depreciated					
Land	\$ 10,377,423	\$ 34,334	\$ (755,162)	\$ 27,020,942	\$ 36,677,537
Construction-in-Progress	167,053,689	66,060,770	(1,106,470)	(108,011,429)	123,996,560
Total capital assets, not being depreciated	<u>177,431,112</u>	<u>66,095,104</u>	<u>(1,861,632)</u>	<u>(80,990,487)</u>	<u>160,674,097</u>
Capital assets, being depreciated					
Buildings	206,597,915	3,641,731	(40,285)	34,375,695	244,575,056
Improvements other than buildings	135,933,960	434,995	(3,927)	46,602,812	182,967,840
Equipment	82,299,676	1,760,957	(918,499)	11,980	83,154,114
Total capital assets, being depreciated	<u>424,831,551</u>	<u>5,837,683</u>	<u>(962,711)</u>	<u>80,990,487</u>	<u>510,697,010</u>
Less total accumulated depreciation	<u>137,512,522</u>	<u>16,982,916</u>	<u>(1,082,609)</u>	<u>-</u>	<u>153,412,829</u>
Business-type Capital Assets, Net	<u>\$ 464,750,141</u>	<u>\$ 54,949,871</u>	<u>\$ (1,741,734)</u>	<u>\$ -</u>	<u>\$ 517,958,278</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**8. Capital Assets (continued)**

**Discretely Reported Component Units**

Property and equipment activity in the School District at June 30, 2003, consisted of the following:

	Balance July 1, 2002	Increases	Balance June 30, 2003
Capital assets, being depreciated			
Portable classrooms	\$ 843,608		\$ 843,608
Instruments	63,000	\$ 20,561	83,561
Other machinery & equipment	6,956,919	1,369,496	8,326,415
Total capital assets, being depreciated	<u>7,863,527</u>	<u>1,390,057</u>	<u>9,253,584</u>
Less accumulated depreciation			
Portable classrooms	89,606	28,122	117,728
Instruments	6,943	6,499	13,442
Other machinery & equipment	3,264,535	598,307	3,862,842
Less total accumulated depreciation	<u>3,361,084</u>	<u>632,928</u>	<u>3,994,012</u>
Total Capital Assets being depreciated, Net	<u><u>\$ 4,502,443</u></u>	<u><u>\$ 757,129</u></u>	<u><u>\$ 5,259,572</u></u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**8. Capital Assets (continued)**

Property and equipment activity in the MTA at June 30, 2003, consisted of the following:

	Balance 30-Jun-02	Additions	Retirements	Transfers	Balance 30-Jun-03
Capital assets, not being depreciated					
Land	\$ 129,109				\$ 129,109
Total capital assets, not being depreciated	129,109	-	-	-	129,109
Capital assets, being depreciated					
Buildings	1,807,598				1,807,598
Buses	5,785,833	\$ 50,670	\$ (182,153)		5,654,350
Equipment	1,477,212	6,862	(36,291)		1,447,783
Total capital assets being depreciated	9,070,643	57,532	(218,444)	-	8,909,731
Less accumulated depreciation	6,596,241	531,800	(218,444)	-	6,909,597
Total Capital Assets being depreciated, Net	<u>\$ 2,603,511</u>	<u>\$(474,268)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,129,243</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General	\$ 2,523,367
Public safety	738,592
Highways and streets	2,486,016
Health and welfare	99,336
Education and library	1,528,734
Parks	801,643
Total depreciation expense – governmental activities	<u>\$ 8,177,688</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**9. Long-Term Debt**

**Primary Government**

The debt service requirements of the City's outstanding general obligation bonds, revenue bonds and notes payable at June 30, 2003 are as follows:

Governmental long-term debt:

Fiscal year	Capital Appreciation	Principal	Interest	Total
2004	\$ 414,226	\$ 15,434,450	\$ 8,008,206	\$ 23,856,882
2005		14,489,168	7,702,326	22,191,494
2006		10,908,037	4,289,885	15,197,922
2007		7,907,186	3,875,083	11,782,269
2008		7,703,556	3,523,059	11,226,615
2009-2013		30,937,831	12,848,997	43,786,828
2014-2018		22,825,868	6,118,395	28,944,263
2019-2023		5,345,718	1,749,380	7,095,098
2024-2028		2,379,242	735,177	3,114,419
2029-2031		1,005,639	120,793	1,126,432
Total	<u>\$ 414,226</u>	<u>\$ 118,936,695</u>	<u>\$ 48,971,301</u>	<u>\$ 168,322,222</u>

Business-type Activities:

Fiscal year	Principal	Interest	Total
2004	\$ 11,794,287	\$ 11,992,418	\$ 23,786,705
2005	12,206,014	13,148,206	25,354,220
2006	11,888,890	12,728,134	24,617,024
2007	10,909,656	12,293,890	23,203,546
2008	10,268,332	11,863,539	22,131,871
2009-2013	52,536,006	52,898,927	105,434,933
2014-2018	56,817,571	40,928,317	97,745,888
2019-2023	63,139,282	27,745,170	90,884,452
2024-2028	66,620,758	13,792,881	80,413,639
2029-2032	24,284,363	1,955,268	26,239,631
Debt Service Requirement	320,465,159	199,346,750	519,811,909
Less Bond Discount	(3,507,495)		(3,507,495)
Less Deferred Loss	(1,673,783)		(1,673,783)
Total Business-type Activities	<u>\$ 315,283,881</u>	<u>\$ 199,346,750</u>	<u>\$ 514,630,631</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**9. Long-Term Debt (continued)**

Interest rates for the City's outstanding GO bonds range from 2.05% to 8.875%. At June 30, 2003 the City's legal debt limit was \$686,468,412. Authorized, but unissued, bonds as of June 30, 2003 amounted to \$258,762,909. Unissued bonds at June 30, 2003 include authorization for an unprecedented amount of infrastructure improvements and economic development projects.

Over the course of the last year and a half, the City has worked methodically and conscientiously to structure a proposal to package all of the school, additions and renovations that were to be included as part of the Design / Build / Finance initiative in the total amount of \$105,000,000. These School Facilities Revenue Bonds represent the single largest General Fund issuance ever and are unique because the debt service on the additions and renovations to the high schools is to be borne by the sending districts per the Tuition Agreements that were approved July 2003.

The City is preparing to bring MWW to market as an independent issuer of revenue bonds to finance the upgrade of the Water Treatment Plant and to fund Water Distribution System upgrades.

From the economic development perspective, the City has agreed to pay up to five million dollars towards the costs of a garage at the Bridge and Elm Street location, where the construction of an upscale apartment building has been proposed.

The second high profile economic development project is the construction of a baseball stadium at the site of the former Singer Park. This stadium would be home to a AA baseball team and because the terms of the Master Lease Agreement contain provisions for ancillary development of a hotel and an apartment complex and retail space, the fiscal impact that this development could generate is enormous. Part of this authorization includes funding for improvements to Gill Stadium. This historic locale will be homefield to the new baseball team as it debuts in April 2004, for its novice year in Manchester. Subsequently, the long overdue improvements will provide a state of the art facility and venue for future high school and other league athletic events.

Along with the proposed sale of bonds to finance the baseball stadium and garage, there are a number of other construction projects and infrastructure improvements that also will be funded for bridge rehabilitation, a new fire station, parks rehabilitation, streets, sewers, major building renovations, a plethora of projects and a new senior citizen center anticipated to improve and enhance the everyday life of the citizenry.

The business-type funds, EPD and Water Works comprise a large part of this total outstanding dollar amount with \$29,412,099 and \$48,500,000, respectively. Of those amounts, \$34,412,099 is expected to be financed through the State of New Hampshire DES-SRF program while the balance will provide funding for the Water Treatment Plant. Additionally, the most significant ongoing GO project is the Sanitary Landfill Closure in the amount of \$13,850,000, which is expected to be financed through the State DES-SRF program. The process has been substantially completed and expected to be amortized early in fiscal year 2005. The full faith, credit and revenue-raising powers of the City have been pledged to secure these bonds.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**9. Long-Term Debt (continued)**

For June 30, 2003 an amount of \$5,136,395 was recorded in the Government-Wide Financial Statement for the accretion of interest on the capital appreciation bonds which is also included in the governmental long-term debt service in fiscal years 2004 through 2005.

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance 1-Jul-02	Increases	Decreases	Balance 30-Jun-03	Due within One year
Governmental activities:					
General Obligation Bonds					
Payable - City	\$ 88,120,240	\$ 25,000	\$ 10,890,802	\$ 77,254,438	\$ 9,688,629
General Obligation Bonds					
Payable - MSD	47,667,320	-	5,985,063	41,682,257	5,745,821
	<u>135,787,560</u>	<u>25,000</u>	<u>16,875,865</u>	<u>118,936,695</u>	<u>15,434,450</u>
Compensated absences	5,418,492	909,898		6,328,390	2,959,335
Insurance claims	4,071,081	64,020		4,135,101	3,884,998
Capital appreciation bonds	6,909,802	719,629	2,493,036	5,136,395	2,712,411
Landfill closure and post-closure care	21,509,737		3,402,780	18,106,957	-
	<u>\$ 173,696,672</u>	<u>\$ 1,718,547</u>	<u>\$ 22,771,681</u>	<u>\$ 152,643,538</u>	<u>\$ 24,991,194</u>
Business-type activities					
General Obligation Debt	\$ 50,927,008	\$ -	\$ 6,896,849	\$ 44,030,159	\$ 6,744,287
Revenue Bonds, net of unamortized Original Issue Discount	275,328,820	-	4,075,098	271,253,722	5,050,000
	<u>\$ 326,255,828</u>	<u>\$ -</u>	<u>\$ 10,971,947</u>	<u>\$ 315,283,881</u>	<u>\$ 11,794,287</u>

The EPD Enterprise Fund has eight loan agreements with original principal balances amounting to \$44,813,578 with the State of New Hampshire, State Water Pollution Control Revolving Fund (SRF) program for the purpose of financing certain projects in connection with the expansion of the wastewater treatment facility and water pollution abatement project.

Additionally, several projects are currently utilizing the services of the SRF. These projects are in various stages of the construction or completion phase of the project. Three of the DES eligible projects are classified as EPD Enterprise, while the single exception, the Sanitary Landfill Closure carries a general fund genre. Total indebtedness unamortized as of June 30, 2003 is \$18,873,557, comprised of \$6,766,600 for EPD and CSO projects, and \$12,106,957 for the Sanitary Landfill Closure.

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account asset and liability for the defeased bonds are not included in the City's financial statements. On June 30, 2003 \$15,410,000 of bonds outstanding are considered defeased.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**9. Long-Term Debt (continued)**

The Department of Aviation (the “DA”) Enterprise Fund has entered into a twenty year interest rate swap agreement for \$38,340,000 of its variable rate demand general airport revenue bonds. Based on the swap agreement, the DA owes interest calculated at a fixed rate of 4.38% to the counterparty to the swap. In return, the counterparty owes the DA interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$38,340,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The DA continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the DA effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds are based on the fixed rate.

At June 30, 2003, the swap agreement resulted in a cumulative unfavorable fair value of approximately \$4,669,000, based on dealer quoted prices, and accordingly, the fair value of the swap was recorded in accounts payable and additional interest expense in the related accompanying financial statements.

**Manchester Housing and Redevelopment Authority**

In March 2000, the Manchester Housing and Redevelopment Authority, New Hampshire the (“MHRA”) issued \$49,772,909 in revenue bonds (the “Bonds”) to finance, in part, the construction of the Manchester Civic Center (now the Verizon Wireless Arena) (the “Arena”). The MHRA is a public body, corporate and politic, established pursuant to Chapter 203 of the New Hampshire Revised Statutes. The MHRA is not a component unit of the City within the meaning of GASB No. 14.

The Bonds issued by the MHRA to finance the construction of the Arena are secured, to a degree, by revenues to be-paid by the City pursuant to a Financing Agreement between the City and the MHRA (the “Financing Agreement”). At the time of the issuance of the Bonds, MHRA assigned all of its rights under the Financing Agreement to a corporate trustee, to be held, in trust, for the benefit of the holders of the Bonds from time to time. Under the terms of the Financing Agreement, the City is to make payment of meals and rooms tax revenues received by it from the State of New Hampshire, pursuant to RSA 78-A:26, but only to the extent that (i) such funds are actually received by the City from this source, in excess of \$454,927 in any given year, and (ii) that the City’s Board of Mayor and Aldermen (the “BMA”) actually appropriates such funds in each year to make such payments. The City’s payments under the Financing Agreement are not secured by its full faith and credit. Moreover, the City is not morally obligated to make any payments under the Financing Agreement. The Financing Agreement stipulates that the Mayor will include an appropriation request in the annual budget submission to the City’s Board of Mayor and Aldermen, payable from the meals and rooms tax imposed by the State and paid to the City in excess of \$454,927 in each fiscal year in an amount sufficient to make the payments required under the Financing Agreement. There is, however, no assurance that the BMA will appropriate such funds on an annual basis or that sufficient meals and rooms tax revenues will be received by the City to make scheduled payments under the Financing Agreement. Pursuant to New Hampshire law, the Bonds do not constitute indebtedness of the City of Manchester.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**9. Long-Term Debt (continued)**

In the event that either (i) the City does not receive meals and rooms tax revenues sufficient to make payments under the Financing Agreement, or (ii) that the BMA should determine not to appropriate meals and rooms tax revenues to make payments under the Financing Agreement (each an “Event of Early Termination”), holders of the Bonds may look only to an insurance policy provided American Capital Access Financial Guaranty Corporation for the payment of scheduled installments of principal and interest on the Bonds. An Event of Early Termination does not constitute a default by the City under the Financing Agreement. Holders of the Bonds have no security interest, mortgage, or other claim or interest in the Arena to secure the repayments of the Bonds.

In the event of default, bond reserves initially and subsequent bond insurance arrangements including the exercise of management control of the facility by the insurer will provide remedies for bondholders. In any event, title to the facility always remains with the City of Manchester. Therefore, the Arena is included as an asset on the City’s financial statement. The City treated the donation of the asset from MHRA as a non-exchange transaction and recorded the asset at construction cost as the estimated fair market value at the time of the donation.

Due to the uncertainty of the state meals and rooms tax revenue formula, the City is not including these unknown funds as either revenues or receivables. Similarly, since the non-funding clause in the Financing Agreement provides annual lease payments which are contingent upon the items discussed in the second paragraph, the City has not included any future payments pursuant to the Financing Agreement. Accruals for the general or unspecified business risks (“reserves for general contingencies”) are not permitted per FASB 5. The BMA may at any time, at its sole discretion, decide not to appropriate meals and rooms tax revenue funds.



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans**

All full-time employees of the City participate in one of the City's pension plans or the New Hampshire Retirement System ("NHRS").

***City Plans***

The vast majority of employees of the City participate in the City's pension plan known as the New System or the CRS. Certain employees of the City participate in a prior pension plan known as the Old System. In addition, a limited number of former police and fire department employees covered by the NHRS also qualify for supplementary benefits that are administered and paid for by the City.

**SCHEDULE OF PLAN NET ASSETS**

	<b>CRS Pension Trust</b>	<b>Old System Pension Trust</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 804,485	\$ 9,386,174	\$ 10,190,659
Investments	74,099,597	9,364,100	83,463,697
Receivables, net of allowances for collection losses	343,262	93,447	436,709
Other assets	8,927		8,927
Property and equipment, net where applicable, of accumulated depreciation	240,975		240,975
<b>Total Assets</b>	<u>\$ 75,497,246</u>	<u>\$ 18,843,721</u>	<u>\$ 94,340,967</u>
<b>Liabilities</b>			
Accounts and warrants payable	\$ 137,940		\$ 137,940
Accrued liabilities	562,762		562,762
<b>Total Liabilities</b>	700,702		700,702
<b>Net Assets Held in Trust for Pension Benefits</b>	<u><u>\$ 74,796,544</u></u>	<u><u>\$ 18,843,721</u></u>	<u><u>\$ 93,640,265</u></u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans (continued)**

**SCHEDULE OF CHANGES OF PLAN NET ASSETS**

	<b>CRS Pension Trust</b>	<b>Old System Pension Trust</b>	<b>Total</b>
<b>Additions</b>			
Contributions			
Employer	\$ 1,794,576		\$ 1,794,576
Plan members	1,531,458		1,531,458
<b>Total Contributions</b>	<u>3,326,034</u>		<u>3,326,034</u>
Investment Gain (Loss)			
Net realized and unrealized appreciation (depreciation) in fair value of investments	(10,274,998)	\$ 99,250	(10,175,748)
Interest	720,912	682,782	1,403,694
Dividends	1,067,951		1,067,951
Less investment expense	(380,435)		(380,435)
<b>Net Investment Income (Loss)</b>	<u>(8,866,570)</u>	<u>782,032</u>	<u>(8,084,538)</u>
<b>Total Additions (Reductions)</b>	<u>(5,540,536)</u>	<u>782,032</u>	<u>(4,758,504)</u>
<b>Deductions</b>			
Benefits paid directly to participants	4,568,960	1,997,603	6,566,563
Refunds of employee contributions	301,901		301,901
Administrative expenses	578,213	67,107	645,320
<b>Total Deductions</b>	<u>5,449,074</u>	<u>2,064,710</u>	<u>7,513,784</u>
<b>Net Decrease</b>	(10,989,610)	(1,282,678)	(12,272,288)
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	85,786,154	20,126,399	105,912,553
End of year	<u>\$ 74,796,544</u>	<u>\$ 18,843,721</u>	<u>\$ 93,640,265</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans (continued)**

***New System***

In 1974, the City established a single-employer public employee retirement system (the "New System") to provide pension benefits to employees other than firefighters, police officers, teachers and employees previously covered under the "Old System" described below. Manchester School District administration employees are covered under this plan.

All covered employees hired after January 1, 1974 are required to participate in the New System as a condition of employment. Employees are 100% vested after five years of service. The retirement benefit is calculated at 1-1/2% of final average total compensation during the highest three years of service in the last ten years of service (hereafter average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999. There is a minimum benefit of 50% of average compensation for employees hired prior to January 1, 1974 who complete 20 years of service and attain age 62 before retirement or have combined age and years of service over specified amounts. All eligible employees are required to contribute 2-1/2% of their salaries to the New System prior to January 1, 1999 and 3-3/4% of their salaries after January 1, 1999. If an employee leaves covered employment or dies before five years of service, accumulated employee contributions and earnings thereon at rates determined annually by the New System Board of Trustees (5%, for the periods ended June 30, 2003 and 2002) are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provisions and contribution requirements are established by the City and may be amended only by the BMA, subject to approval of the voters of the City through referendum. The Plan was last amended on November 1, 2002.

Membership in the Plan consisted of the following at December 31, 2002, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	484
Terminated vested members	66
Active members	<u>1,330</u>
Total Participants	<u>1,880</u>

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans (continued)**

The City's plans, by policy, (i) require annual actuarial valuations, with yearly updates, and (ii) require annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual required contribution ("ARC") of the pension plan. Any difference between the ARC and the actual contribution made has been settled by the next actuarial valuation date, and thus the City has never actually had, or had need to report, a net pension obligation ("NPO").

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2002	\$ 1,794,576	100 %
2001	1,117,163	100
2000	713,685	100
1999	796,552	100
1998	514,216	100
1997	543,835	100

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (Surplus) (b)	Actuarial Accrued Liability (c)	Funded Ratio (a)/(c)	Covered Payroll (prior year)
12/31/02	\$ 89,755,853	\$ 16,364,857	\$ 106,120,710	84.6 %	\$ 38,940,104
12/31/01	94,812,631	1,457,848	96,270,479	98.5	38,692,738
12/31/00	90,144,513	(3,049,404)	87,095,109	103.5	35,370,961
12/31/99	82,584,305	(3,263,538)	79,320,767	103.0	29,581,577
12/31/98	72,569,967	(1,494,444)	71,075,523	102.1	28,255,208
12/31/97	65,839,177	(4,296,452)	61,542,725	107.0	26,961,375
12/31/96	59,838,164	(3,121,758)	56,716,406	105.5	24,418,320

Additional information as of the latest actuarial valuation follows:

Valuation Date:	January 1, 2003
Mortality:	The 1983 Group Annuity Mortality Table
Actuarial Cost Method:	Entry Age
Investment Return:	7.5% per year compounded annually, net of expenses
Compensation Increases:	Under 35 – 5.5%; 35 to 49 – 5%; 50 and over – 4.5%
Amortization Method:	Level percentage closed
Asset Valuation Method:	5 year smoothed market
Inflation Rate:	4.5%

The System reduced the normal age of retirement from 62 to 60 and provided for a two-percent annual subsidy on early retirement for participants aged 55 with at least 20 years of service or participants

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans (continued)**

whose age plus years of service equal at least 80 (including previously terminated participants). This amendment was granted during 2002 and became effective November 1, 2002. The increase in plan liabilities was \$3 million, which reflects the impact of the plan amendment as well as a change in assumed retirement rates. The amortization of this change increases the customary contribution by \$200,000 for the first 20 years and \$500,000 for the subsequent 10 years.

The System adopted a 3% COLA to participants in payment status as of June 1, 2002. The effect of this COLA was to increase liabilities by \$1.2 million. This increase is funded over ten years. For 2003, the impact on the customary contribution is a charge of approximately \$165,000.

***Old System***

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single employer contributory public employee retirement system (PERS). All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the New System. The Old System was replaced by the New System and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors. Benefits are recognized as expenditures of the General Fund on a pay-as-you-go basis. At June 30, 2003, the Old System membership consisted of:

Members currently receiving benefits	138
Active Vested Members	21
Total Members	<u>159</u>

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Plan Year ended June 30	Annual required contributions	Percentage contributed *
2003	\$ 87,547	0.0 %
2002	2,175,245	967.3
2001	2,196,055	92.6
2000	2,158,104	93.4
1999	2,048,811	96.8
1998	1,728,000	100.0

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans (continued)**

The City's annual pension cost and net pension obligation to the Plan for the current year were:

Annual required contribution	\$ 87,547
Interest on net pension obligation	(1,388,344)
Adjustment to annual required contribution	1,954,328
Annual pension cost	<u>653,531</u>
Less contributions made	<u>0</u>
Increase in net pension obligation (asset)	653,531
Net pension obligation (asset) beginning of year	<u>(18,511,248)</u>
Net pension obligation (asset) end of year	<u><u>\$(17,857,717)</u></u>

Three year trend information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2003	\$ 653,531	0.0 %	\$(17,857,717)
6/30/2002	2,165,300	967.3	(18,511,248)
6/30/2001	2,190,986	92.6	364,220

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Assets	Actuarial Accrued Liability (AAL) P.U.C.	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2002	\$ 20,126,399	\$ 20,955,638	\$ 829,239	96.04 %	\$ 1,025,725	80.84 %
07/01/2001	-	21,262,936	21,262,936	0.00	1,009,090	2,107.14
07/01/2000	-	22,085,349	22,085,349	0.00	1,097,032	2,013.19
07/01/1999	-	22,269,566	22,269,566	0.00	1,326,886	1,678.33
07/01/1998	-	22,453,076	22,453,076	0.00	1,417,158	1,584.37
07/01/1997	N/A	N/A	N/A	N/A	N/A	N/A

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2003
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50 %
Projected salary increases	4.50 %

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**10. Employee Benefit Plans (continued)**

***NHRS Related Supplementary Benefits Plan***

The City pays supplementary benefits of up to 50% of the last annual wage for any City employee who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit from the NHRS equal to at least 50% of the last annual wage. These costs are accounted for on a pay-as-you-go basis in the general fund.

At June 30, 2003, the membership consisted of:

Members currently receiving benefits	<u>55</u>
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***New Hampshire Retirement System***

The City contributes to the NHRS a cost-sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The NHRS provides retirement and disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A:16 of New Hampshire Law assigns the system the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The NHRS issues a publicly available financial report which can be obtained through the New Hampshire Retirement System at 4 Chennel Drive, Concord, New Hampshire 03301-8509.

NHRS members are required to contribute 9.30% of annual covered compensation to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16 and ranges from 5.33% to 6.61% of covered compensation.

The City's contributions to the system, consisting of firefighters and police officers, for the years ended June 30, 2003 and 2002 were \$1,492,473 and \$1,427,011 respectively and were equal to the required contributions. For the years ended June 30, 2003 and 2002, the City has recognized both revenue and expenditures of \$800,863 and \$646,212, respectively, on behalf of contributions made by the State to the NHRS.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**11. Contingent Liabilities and Insurance**

There are various claims and legal actions pending against the City for which provision has been made in the financial statements starting in fiscal year 2002. In the opinion of the City Solicitor and other City officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be significant.

The City's insurance coverage consists of both self-insured programs and policies maintained with various carriers. Coverage has not been materially reduced nor have settled claims exceeded commercial coverage in any of the past three years.

Changes in the balances of claims liabilities recorded by the City during the past two years are as follows:

Fiscal Year Ended	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2003	\$4,976,402	\$4,640,796	\$4,603,949	\$4,939,555
2002	5,488,269	4,344,763	\$3,832,896	4,976,402

**Accident and Health**

Accident and health claims are administered through a private carrier. The City is self-insured under this program. The City maintains a stop-loss policy with limits of \$100,000 per year, per claim and a 115% aggregate for the entire cost. The City has recorded \$804,454 in the General Fund for claim liabilities at year end.

**Property**

Property insurance is maintained with a commercial insurer and provides for a deductible of \$100,000 for each claim and an overall coverage limit of \$100,000,000.

**General Liability**

Liability claims are administered through a private carrier. The City is self-insured under this program, except for the Aviation Fund which maintains a liability insurance policy which provides coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. State law generally limits a city's liability for an incident to \$150,000 per individual and \$500,000 per incident. \$3,675,304 was recorded in the government wide statements for fiscal year 2003 as the City's estimated liabilities for unsettled claims.



**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**11. Contingent Liabilities and Insurance (continued)**

**Worker's Compensation**

Worker's compensation claims are administered through a private carrier. The City is self-insured under this program for all City employees. There is no limit per employee. \$2,964,110 was recorded in the government wide statements as the City's estimated liability for all types of claims incurred in 2003 or prior, which have not been settled.

**Department of Aviation**

The DA has comprehensive airport liability insurance policies with insurance companies, which provide coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Claims are subject to a deductible of \$1,000 for each occurrence up to a maximum of \$5,000 during any one annual insurance period.

Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**Regulatory**

The City was issued an Administrative Order against it by the United States Environmental Protection Agency (EPA), ordering the City to evaluate and plan for appropriate treatment of combined sewer over flows pursuant to the Federal Clean Water Act. The City believes it is in compliance with the Administrative Order and is working with Federal and State authorities in dealing with combined sewer overflows from its publicly-owned treatment works. As of June 30, 2003, there is no pending claim by the EPA or the State.

**12. Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations required the City to place final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stopped accepting waste, the City reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of the financial statement date. The \$18,106,957 reported as landfill closure and postclosure care liability at June 30, 2003 represents the cumulative amount reported to date based on use of 100 percent of the estimated capacity of the landfill. The City closed the landfill on June 28, 1996. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City anticipates that the funding for the landfill closure costs will be provided through the issuance of general obligation bonds.

**13. Fund Deficit**

As of June 30, 2003, the CDBG, Capital Projects and the Aggregation funds had fund deficits in the amounts of \$146,616, \$8,369,093 and \$1,581,101, respectively.

The City anticipates financing the deficits through future revenues and through future debt issuances.

**City of Manchester, New Hampshire**  
**Notes to Financial Statements**  
**June 30, 2003**

**14 . Issued But Not Effective Professional Standards**

The Governmental Accounting Standards Board (GASB) has issued two statements not yet implemented by the City. The statements which might impact the City are as follows:

Statement No. 39, "Determining Whether Certain Organizations are Component Units," an amendment of GASB Statement No. 14 issued May 2002, will be effective for fiscal year ending June 30, 2004. Statement No. 39 provides new guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

Statement No. 40, "Deposit and Investment Risk Disclosures," issued March 31, 2003, will be effective for the fiscal year ending June 30, 2005. Statement No. 40 imposes new standards for disclosing deposits and investments. The statement addresses common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. The statement's effect on the financial statements will limit the deposit and investment disclosure to categorizing deposits that are not covered by depository insurance and investment securities that are uninsured.

**15. Subsequent Events**

On July 31, 2003 the City issued \$101,410,000 School Facilities Revenue Bonds, Series 2003. This ambitious undertaking was structured as a Design/Build/Finance Project to provide funding for a comprehensive renovation to schools in the City including additions to middle and high schools. With the utilization of the D/B/F concept, the City awarded a contract in the GMP amount of \$94,900,000 in April, 2003 for construction costs. Interest rates range from 2.00% to 5.50% over the 25 year amortization period.

On August 14, 2003 the City received proceeds for \$38,345,000 (MWW) Water Revenue Bonds, Series 2003. This issuance represented the introduction of Manchester Water Works as an independent issuer to the marketplace. The insured bonds have a TIC (True Interest Cost) of 5.089% and will be amortized over a 30 year term. The proceeds will finance construction expansion and upgrades to the Water Treatment Facility and permanent improvements to the water distribution system. Contracts for the WTF project were awarded in May, 2003 for \$28.7 million while the oversight of the distribution system improvements will continue to be administered by MWW.

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ROPES & GRAY LLP

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BOSTON NEW YORK SAN FRANCISCO WASHINGTON, DC

[Proposed Form of Legal Opinion]

City of Manchester  
City Hall Plaza  
Manchester, New Hampshire

CITY OF MANCHESTER, NEW HAMPSHIRE, \$11,730,000 General Obligation  
Refunding Bonds, Series 2004 (the "Bonds"), originally issued as of September 28, 2004.

Ladies and Gentlemen:

We have examined Chapter 33 of the New Hampshire Revised Statutes Annotated, as amended (the "Municipal Finance Act"), other applicable statutes and certified copies of the proceedings taken by the City of Manchester, New Hampshire to authorize the Bonds of the City of Manchester, New Hampshire (the "City") and, on the basis of such examination, are of the opinion that the Bonds are duly authorized.

The Bonds mature and bear interest at such times and at such rates as are set forth in the Bonds.

The Bonds are being issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfer of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

Each Bond should bear the City Seal or a facsimile thereof and the authenticating certificate, duly executed, of Citizens Bank, in Manchester, New Hampshire and should be signed by the manual or facsimile signature of the Mayor, and countersigned by the manual or facsimile signature of the City Finance Officer.

Of the issue described, we have examined each of the fully executed Bonds, and we are of the opinion that the forms of such bonds and the forms of their execution and certification are regular and proper.

With respect to the Bonds, we are further of the opinion that under existing law:

The Bonds, executed and certified as above indicated, are valid general obligations of the City, and, to the extent not paid from other sources are payable as to both principal and interest from ad valorem taxes which the City has power to levy without limit as to rate or amount upon all the property within its territorial limits and taxable by it.

The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends.

Under existing law, as long as the Bonds are in fully registered form, the interest on the Bonds (which includes any original issue discount property allocable thereto) is not included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). The interest on the Bonds is not an item of tax preference for purposes of computing the alternative minimum tax imposed upon corporations and taxpayers other than corporations; however, interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations and is included in the measure of certain other taxes imposed on corporations and in the measure of income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether such benefits shall be included in the taxable income of such recipients.

We call to your attention certain requirements of the Code relating to the use, expenditure and investment of the proceeds of the Bonds. Failure by the City to comply with such requirements subsequent to the issuance of the Bonds might cause interest on the Bonds to become subject to federal income taxation or might cause interest on the Bonds to become an item of tax preference for purposes of computing the alternative minimum tax imposed on taxpayers other than corporations, in each case retroactive to the date of issuance of the Bonds. The City has covenanted to take such actions as may be reasonably within its ability and required by law to continue the exemption from federal income taxation of interest on the Bonds and the exclusion from such items of tax preference of interest on the Bonds. We express no opinion with respect to other federal tax consequences arising with respect to the Bonds.

Obligations of the City, including the Bonds, are subject to bankruptcy, insolvency reorganization and similar laws affecting the rights and remedies of creditors and the availability of the remedy of specific enforcement or of injunctive relief is subject to the discretion of the court before which any proceedings therefor may be brought.

Very truly yours,

Ropes & Gray LLP

**PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate ("Certificate") is made as of \_\_\_\_\_, 2004 by the City of Manchester, New Hampshire (the "Issuer") acting by its undersigned officer, duly authorized, in connection with the issuance of its \$11,730,000 General Obligation Refunding Bonds, Series 2004 (the "Bonds") for the benefit of the beneficial owners from time to time of the Bonds.

In consideration of the purchase of the Bonds by the Participating Underwriters (as defined below), the Issuer covenants and agrees as follows:

Section 1. Purpose of the Certificate. This Certificate is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Section 2. Definitions. In addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Certificate, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Issuer pursuant to, and as described in, Section 3 of this Certificate.

"Beneficial Owner" means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bond (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Final Official Statement" means the official statement of the Issuer dated August 25, 2004 prepared in connection with the Bonds.

"Holders" shall mean either the registered owners of the Bonds, or if the bonds are registered in the name of The Depository Trust Company or any other recognized securities depository, any applicable participant in its depository system.

"MSRB" means the Municipal Securities Rulemaking Board established under the 1933 Securities Act, as amended, or any successor thereto.

"NRMSIR" means any nationally recognized municipal securities information repository recognized by the SEC from time to time. As of the date of this Certificate the NRMSIRs are:

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, New Jersey 08558  
PH: (609) 279-3225  
FAX: (609) 279-5962  
E-mail: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)

DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
PH: (201) 346-0701  
FAX: (201) 947-0107  
E-mail: [nrmsir@dpccdata.com](mailto:nrmsir@dpccdata.com)

Standard & Poor's Securities Evaluations, Inc.  
55 Water Street, 45<sup>th</sup> Floor  
New York, New York 10041  
PH: (212) 438-4595  
FAX: (212) 438-3975  
E-mail: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

FT Interactive Data  
Attn: NRMSIR  
100 William Street  
New York, New York 10038  
PH: (212) 771-6999  
FAX: (212) 771-7390 (Secondary Market Information)  
(212) 771-7391 (Primary Market Information)  
E-mail: [NRMSIR@ftid.com](mailto:NRMSIR@ftid.com)

“Participating Underwriter” means any of the original underwriters of Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” means rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Certificate.

“SEC” means the Securities and Exchange Commission of the United States, or any successor thereto.

“SID” means any state information depository established or designated by the State of New Hampshire and recognized by the SEC from time to time.

### Section 3. Annual Financial Information.

(a) The Issuer agrees to provide or cause to be provided to each NRMSIR and SID, in accordance with the provisions of the Rule and of this Certificate, annual financial information and operating data as follows:

(i) Financial statements of the Issuer, which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. The financial statements will be audited by an independent certified public accounting firm or individual and accompanied by the auditor's report therein.

(ii) Financial information and operating data relating to the Issuer with respect to the Bonds for the preceding fiscal year, of the type presented in the Issuer's Official Statement dated November 20, 2003 regarding (i) revenues and expenditures relating to the Issuer's operating budget, (ii) capital expenditures, (iii) fund balances, (iv) assessment or property tax information, as appropriate, (v) outstanding indebtedness and overlapping indebtedness, (vi) pension obligations and (vii) such other financial information, operating data and financial statements as may be required to comply with the Rule.

The financial statements and other financial information and operating data described above will be provided as soon as possible upon their release to the public but in no event later than the date nine (9) months after the close of the fiscal year for which such information is being provided. The Issuer's fiscal year currently ends on June 30.

Annual financial information and operating data may be provided in whole part by cross reference to other documents previously provided to each NRMSIR, any SID, or the SEC. If the document to be cross-referenced is a final official statement, it must be available from the MSRB. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the Issuer.

The Issuer reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from time to time; provided that the Issuer agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

#### Material Events.

The Issuer agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- a) principal and interest payment delinquencies;
- b) non-payment related defaults;
- c) unscheduled draws on debt service reserves reflecting financial difficulties;
- d) unscheduled drafts on credit enhancements reflecting financial difficulties;
- e) substitution of credit or liquidity providers, or their failure to perform;
- f) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- g) modifications to rights of holders of the Bonds;
- h) Bond calls;
- i) Bond defeasances;
- j) release, substitution, or sale of properly securing repayment of the Bonds; and
- k) rating changes.

#### Notice of Failure to Provide Annual Financial Information.

The Issuer agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of any failure by the Issuer to provide annual financial information as set forth in Section 3(a) hereof on or before the date set forth in Section 3(b) hereof.

#### Section 4. Use of Agents.

Annual financial information and operating data and notices to be provided pursuant to this Certificate may be provided by the Issuer or by any agents which may be employed by the Issuer for such purpose from time to time.

#### Section 5. Termination.

The obligations of the Issuer under this Certificate shall terminate upon the earlier of (i) defeasance, prior redemption or payment in full or otherwise, of all of the Bonds, or (ii) upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Issuer and acceptable to the Trustee to the effect that compliance with this Certificate no longer is required by the Rule.



## Section 6. Enforcement.

The Issuer acknowledges that its undertakings set forth in this Certificate are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the Issuer shall fail to perform its duties hereunder, the Issuer shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 3 of this Certificate or five business days with respect to the undertakings set forth in Sections 4 and 5 of this Certificate) from the time the Issuer receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Issuer is City of Manchester Finance Department, One City Hall Plaza, Manchester, New Hampshire 03101, attention: Finance Officer.

In the event the Issuer does not cure such failure in the time specified above, the Trustee may (and, at the request of Beneficial Owners representing at least 25% in aggregate principal amount of Outstanding Bonds, shall), take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Certificate. Without regard to the foregoing, any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Certificate in the event of any failure of the Issuer to comply with this Certificate shall be an action to compel performance. The Issuer expressly acknowledges and the Beneficial Owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Certificate constitute an event of default with respect to the Bonds.

## Section 7. Miscellaneous.

The Issuer shall have no obligation to provide any information, data or notices other than as set forth in this Certificate; provided however, nothing in this Certificate shall be construed as prohibiting the Issuer from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the Issuer elects to provide any such additional information, data or notices, the Issuer shall have no obligation under this Certificate to update or continue to provide further additional information, data or notices of the type so provided.

Except as described in the Final Official Statement, the Issuer is compliance with all of its prior continuing disclosure undertakings entered into pursuant to Rule 15c2-12(b)(5).

This Certificate shall be governed by the laws of the State of New Hampshire determined without regard to principles of conflict of law; provided however, that to the extent this Certificate addresses matters of federal securities laws, including, Rule 15c2-12, this Certificate shall be governed by such federal securities laws and official interpretations thereof.

Notwithstanding any other provision of this Certificate, the Issuer may amend this Certificate, and any provision of this Certificate may be waived, if (i) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Issuer, (ii) the Certificate as so amended or waived would have complied with the requirements of the Rule as of the date of the Certificate, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the Beneficial Owners of the Bonds or an approving vote by the holders of not less than 60% of the aggregate principal amount of the Bonds then Outstanding. A copy of any such amendment or waiver will be filed in a timely manner with (i) each NRMSIR or the MSRB and (ii) any SID. The annual financial information provided on the first date following adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

CITY OF MANCHESTER, New Hampshire,  
as Issuer

By: \_\_\_\_\_  
Finance Officer

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## LIST OF BONDS TO BE REFUNDED

The following is a list of general obligation bonds of the City to be refunded (the “Refunded Bonds”), prior to maturity, with a portion of the proceeds of the Bonds. The City reserves the right to amend the list of Refunded Bonds prior to the date of issuance of the Bonds by removing certain series or maturities of bonds from the list of Refunded Bonds or by adding certain series or maturities that currently are not shown below.

<u>Refunded Bonds</u>	<u>Maturity Date</u>	<u>Par Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Public Improvement Bonds, Series 1998	June 1, 2010	\$1,115,000	June 1, 2006	101%
	June 1, 2011	1,115,000	June 1, 2006	101
	June 1, 2012	1,115,000	June 1, 2006	101
	June 1, 2013	1,115,000	June 1, 2006	101
	June 1, 2014	1,040,000	June 1, 2006	101
	June 1, 2015	1,040,000	June 1, 2006	101
	June 1, 2016	1,040,000	June 1, 2006	101
	June 1, 2017	1,040,000	June 1, 2006	101
	June 1, 2018	1,040,000	June 1, 2006	101
Public Improvement Bonds, Series 2001	June 1, 2019	\$1,480,000	June 1, 2011	100
	June 1, 2019	550,000	June 1, 2011	100
Total:		<u>\$11,690,000</u>		

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Represents the partial redemption of the \$2,500,000 term bond due June 1, 2019 through a refunding of the sinking fund payments due on June 1, 2018 and June 1, 2019.

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